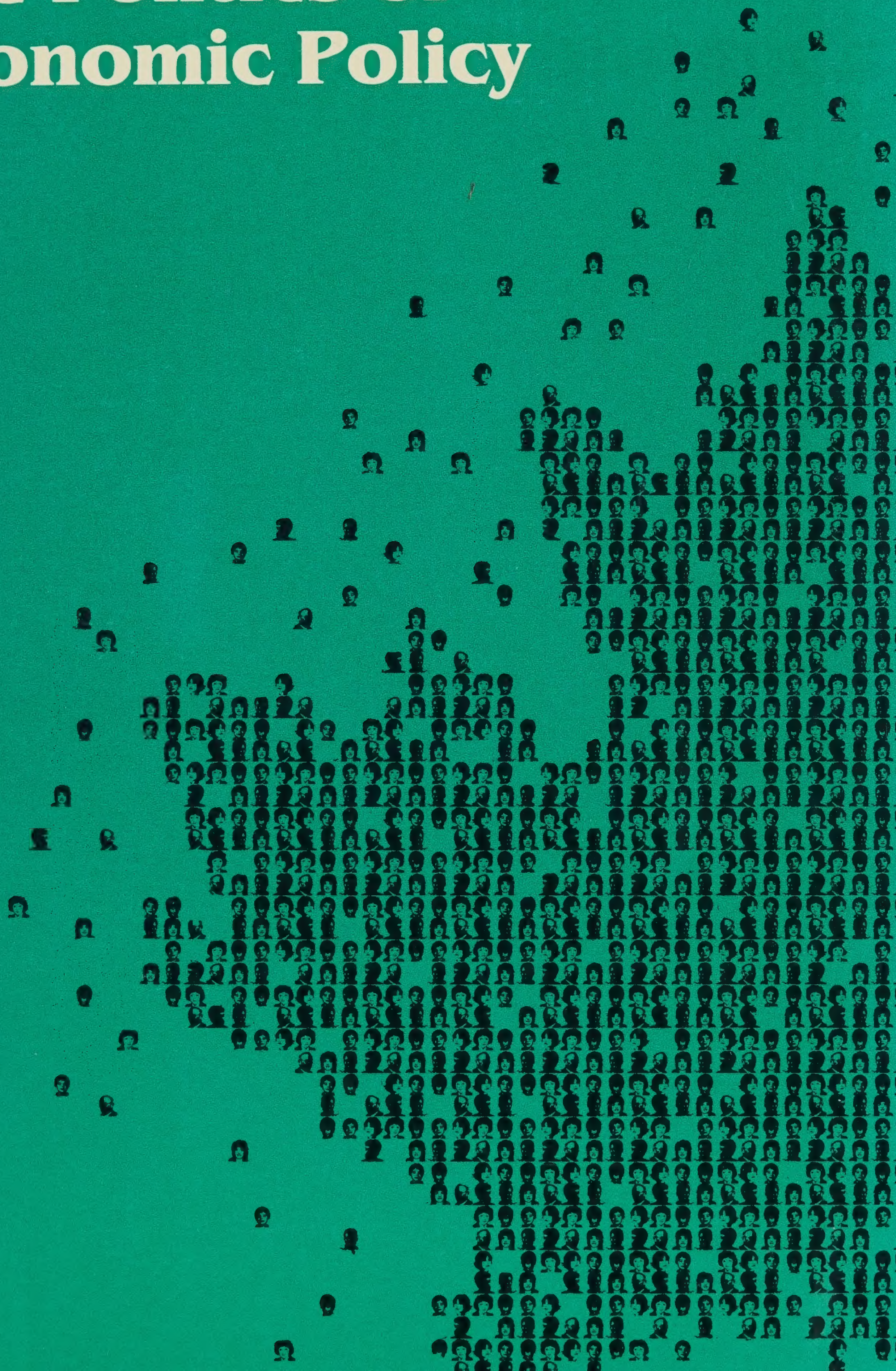
G. BRUCE DOERN, Research Coordinator

The Politics of Economic Policy



The Politics of Economic Policy

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G. Bruce Doern
Research Coordinator

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FOREWORD

When the members of the Rowell-Sirois Commission began their collective task in 1937, very little was known about the evolution of the Canadian economy. What was known, moreover, had not been extensively analyzed by the slender cadre of social scientists of the day.

When we set out upon our task nearly 50 years later, we enjoyed a substantial advantage over our predecessors; we had a wealth of information. We inherited the work of scholars at universities across Canada and we had the benefit of the work of experts from private research institutes and publicly sponsored organizations such as the Ontario Economic Council and the Economic Council of Canada. Although there were still important gaps, our problem was not a shortage of information; it was to interrelate and integrate — to synthesize — the results of much of the information we already had.

The mandate of this Commission is unusually broad. It encompasses many of the fundamental policy issues expected to confront the people of Canada and their governments for the next several decades. The nature of the mandate also identified, in advance, the subject matter for much of the research and suggested the scope of enquiry and the need for vigorous efforts to interrelate and integrate the research disciplines. The resulting research program, therefore, is particularly noteworthy in three respects: along with original research studies, it includes survey papers which synthesize work already done in specialized fields; it avoids duplication of work which, in the judgment of the Canadian research community, has already been well done; and, considered as a whole, it is the most thorough examination of the Canadian economic, political and legal systems ever undertaken by an independent agency.

The Commission's research program was carried out under the joint direction of three prominent and highly respected Canadian scholars: Dr. Ivan Bernier (*Law and Constitutional Issues*), Dr. Alan Cairns (*Politics and Institutions of Government*) and Dr. David C. Smith (*Economics*).

Dr. Ivan Bernier is Dean of the Faculty of Law at Laval University. Dr. Alan Cairns is former Head of the Department of Political Science at the University of British Columbia and, prior to joining the Commission, was William Lyon Mackenzie King Visiting Professor of Canadian Studies at Harvard University. Dr. David C. Smith, former Head of the Department of Economics at Queen's University in Kingston, is now Principal of that University. When Dr. Smith assumed his new responsibilities at Queen's in September 1984, he was succeeded by Dr. Kenneth Norrie of the University of Alberta and John Sargent of the federal Department of Finance, who together acted as Co-directors of Research for the concluding phase of the Economics research program.

I am confident that the efforts of the Research Directors, research coordinators and authors whose work appears in this and other volumes, have provided the community of Canadian scholars and policy makers with a series of publications that will continue to be of value for many years to come. And I hope that the value of the research program to Canadian scholarship will be enhanced by the fact that Commission research is being made available to interested readers in both English and French.

I extend my personal thanks, and that of my fellow Commissioners, to the Research Directors and those immediately associated with them in the Commission's research program. I also want to thank the members of the many research advisory groups whose counsel contributed so substantially to this undertaking.

DONALD S. MACDONALD

INTRODUCTION

At its most general level, the Royal Commission's research program has examined how the Canadian political economy can better adapt to change. As a basis of enquiry, this question reflects our belief that the future will always take us partly by surprise. Our political, legal and economic institutions should therefore be flexible enough to accommodate surprises and yet solid enough to ensure that they help us meet our future goals. This theme of an adaptive political economy led us to explore the interdependencies between political, legal and economic systems and drew our research efforts in an interdisciplinary direction.

The sheer magnitude of the research output (more than 280 separate studies in 72 volumes) as well as its disciplinary and ideological diversity have, however, made complete integration impossible and, we have concluded, undesirable. The research output as a whole brings varying perspectives and methodologies to the study of common problems and we therefore urge readers to look beyond their particular field of interest and to explore topics across disciplines.

The three research areas — *Law and Constitutional Issues*, under Ivan Bernier; *Politics and Institutions of Government*, under Alan Cairns; and *Economics*, under David C. Smith (co-directed with Kenneth Norrie and John Sargent for the concluding phase of the research program) — were further divided into 19 sections headed by research coordinators.

The area *Law and Constitutional Issues* has been organized into five major sections headed by the research coordinators identified below.

- Law, Society and the Economy — *Ivan Bernier and Andrée Lajoie*
- The International Legal Environment — *John J. Quinn*
- The Canadian Economic Union — *Mark Krasnick*

- Harmonization of Laws in Canada — *Ronald C.C. Cuming*
- Institutional and Constitutional Arrangements — *Clare F. Beckton and A. Wayne MacKay*

Since law in its numerous manifestations is the most fundamental means of implementing state policy, it was necessary to investigate how and when law could be mobilized most effectively to address the problems raised by the Commission's mandate. Adopting a broad perspective, researchers examined Canada's legal system from the standpoint of how law evolves as a result of social, economic and political changes and how, in turn, law brings about changes in our social, economic and political conduct.

Within *Politics and Institutions of Government*, research has been organized into seven major sections.

- Canada and the International Political Economy — *Denis Stairs and Gilbert Winham*
- State and Society in the Modern Era — *Keith Banting*
- Constitutionalism, Citizenship and Society — *Alan Cairns and Cynthia Williams*
- The Politics of Canadian Federalism — *Richard Simeon*
- Representative Institutions — *Peter Aucoin*
- The Politics of Economic Policy — *G. Bruce Doern*
- Industrial Policy — *André Blais*

This area examines a number of developments which have led Canadians to question their ability to govern themselves wisely and effectively. Many of these developments are not unique to Canada and a number of comparative studies canvass and assess how others have coped with similar problems. Within the context of the Canadian heritage of parliamentary government, federalism, a mixed economy, and a bilingual and multicultural society, the research also explores ways of rearranging the relationships of power and influence among institutions to restore and enhance the fundamental democratic principles of representativeness, responsiveness and accountability.

Economics research was organized into seven major sections.

- Macroeconomics — *John Sargent*
- Federalism and the Economic Union — *Kenneth Norrie*
- Industrial Structure — *Donald G. McFetridge*
- International Trade — *John Whalley*
- Income Distribution and Economic Security — *François Vaillancourt*
- Labour Markets and Labour Relations — *Craig Riddell*
- Economic Ideas and Social Issues — *David Laidler*

Economics research examines the allocation of Canada's human and other resources, the ways in which institutions and policies affect this

allocation, and the distribution of the gains from their use. It also considers the nature of economic development, the forces that shape our regional and industrial structure, and our economic interdependence with other countries. The thrust of the research in economics is to increase our comprehension of what determines our economic potential and how instruments of economic policy may move us closer to our future goals.

One section from each of the three research areas — The Canadian Economic Union, The Politics of Canadian Federalism, and Federalism and the Economic Union — have been blended into one unified research effort. Consequently, the volumes on Federalism and the Economic Union as well as the volume on The North are the results of an interdisciplinary research effort.

We owe a special debt to the research coordinators. Not only did they organize, assemble and analyze the many research studies and combine their major findings in overviews, but they also made substantial contributions to the Final Report. We wish to thank them for their performance, often under heavy pressure.

Unfortunately, space does not permit us to thank all members of the Commission staff individually. However, we are particularly grateful to the Chairman, The Hon. Donald S. Macdonald; the Commission's Executive Director, J. Gerald Godsoe; and the Director of Policy, Alan Nymark, all of whom were closely involved with the Research Program and played key roles in the contribution of Research to the Final Report. We wish to express our appreciation to the Commission's Administrative Advisor, Harry Stewart, for his guidance and advice, and to the Director of Publishing, Ed Matheson, who managed the research publication process. A special thanks to Jamie Benidickson, Policy Coordinator and Special Assistant to the Chairman, who played a valuable liaison role between Research and the Chairman and Commissioners. We are also grateful to our office administrator, Donna Stebbing, and to our secretarial staff, Monique Carpentier, Barbara Cowtan, Tina DeLuca, Françoise Guilbault and Marilyn Sheldon.

Finally, a well-deserved thank you to our closest assistants: Jacques J.M. Shore, *Law and Constitutional Issues*; Cynthia Williams and her successor Karen Jackson, *Politics and Institutions of Government*; and I. Lilla Connidis, *Economics*. We appreciate not only their individual contribution to each research area, but also their cooperative contribution to the research program and the Commission.

IVAN BERNIER
ALAN CAIRNS
DAVID C. SMITH

PREFACE

This volume has a dual purpose. First, it brings together four papers on the politics of four important fields that are part of economic policy; namely, macro-policy and deficits, resources, income security policy, and labour market policy. Second, it serves as a vehicle, through the research coordinator's overview paper, for the examination of the conclusions of three other large studies (volumes 41, 42 and 43 in the Commission's research program), which deal more with issues that cut across policy fields but are vital for an understanding of the political dimensions and dynamics of economic policy in Canada. These three other volumes examine federal and provincial revenue and expenditure budgeting, economic regulation in a federal state, and the evolution of public service bureaucracy as a political institution. (See Appendix A of the overview paper for the tables of contents of these volumes.)

In the overall design of the Commission's research, all seven studies were grouped under a segment of the research program labelled, "The Politics of Economic Policy," hence the title of this volume. Each author was asked, in keeping with the mandate of the Commission, to review key political trends and dynamics over the past three decades. Historical breadth was needed so as to be able to speak intelligently about possible future lines of reform as well as about current policy. Our intent was not to produce a wish list of detailed reforms, but rather to focus on the general directions for reform that made sense given the underlying political values and institutions.

We have defined the politics of economic policy to include three dimensions: the goals and ideas inherent in the art of politics; shifts in the basic public-private and intergovernmental relationships of power;

and changes in the core structures and processes of policy formulation. As the coordinator of this segment of the research and as editor of this volume, I have attempted to bring these dimensions together in my overview paper through the delicate (and often dangerous) art of summary and synthesis. As a co-author of volumes 41 and 43, referred to above, I am not the most objective interpreter of these studies. Nonetheless, I have tried to look at them, partially at least, in a somewhat different context.

While the studies of the four related volumes are the primary focus, all the authors involved have also drawn on, and are therefore indebted to, many other Canadian social scientists and analysts whose work is cited. My interpretations of the overall politics of economic policy also draw selectively on studies that have been completed in other segments of the Commission's research program. While this volume, as its title implies, does in fact cover a broad terrain, it obviously cannot claim to cover all the political dimensions of economic policy formulation. For example, within the Commission, research on the politics of industrial policy per se (focussing on the manufacturing sector) was coordinated by André Blais. Separate studies on public opinion and public policy, on the role of Crown and mixed enterprises in Canadian federalism, on Canadian–U.S. relations, on business interest groups, and on the nature of the economic union, among others, deal with important dimensions of the politics of economic policy. These works are also drawn upon, albeit more selectively.

Two particular caveats are necessary concerning the limitations of this volume. First, changes internationally and in the world economy are not a focal point. Obviously they enter the analysis indirectly, but this volume is basically a study of the domestic politics of economic policy. Second, within the domestic domain, we also give only limited treatment to what might be called the citizen-state dimension of politics. By this we mean the role of public opinion and the impact that our increasingly rights-oriented society has on the conduct of economic policy.

While acknowledging the above works by referring to them as studies, my intellectual debt has in fact been to individuals. The work of the Commission, though hectic in the extreme, afforded an opportunity of unequalled personal intellectual value, since I was able to work with and be exposed to the ideas and insights of several persons whose assistance has immeasurably improved the final product contained in this volume. These people include not only the authors of the seven studies for which I was nominally responsible, but also full-time colleagues of the Commission staff. Many personal thanks are due to:

Alan Cairns	John Sargent
Peter Aucoin	Don McFetridge
Richard Simeon	Craig Riddell
Keith Banting	John Whalley

André Blais	Mark Krasnick
Cynthia Williams	David Husband
Gilbert Winham	Anne Martin
Denis Stairs	Alan Nymark
Ken Norrie	David Ablett
Richard Van Loon	Jamie Benidickson

The research for this segment of the Commission's work was also greatly aided by the individual and collective advice of members of a research advisory committee which included Allan Warrack, Iain Gow, Richard Phidd, Ian Smythe and David Wolfe. Special thanks are also due to Karen Jackson and Françoise Guilbault on the Commission staff and to Margaret Johnson, Bev Riley, Jan Stewart and Monica Wright, the secretarial staff at the School of Public Administration at Carleton University.

G. BRUCE DOERN

The Politics of Canadian Economic Policy
An Overview

G. Bruce Doern

The Politics of Canadian Economic Policy

The task of generalizing about the politics of Canadian economic policy over a 30-year period is a daunting one. Projecting such generalizations into the next decade is an even greater act of risk-taking, if not foolhardiness. The past is subject to diverse interpretations, and the future increasingly refuses to cooperate with contemporary decision makers or with analysts. Nonetheless, the purpose of this introductory paper is to identify some important overall trends in the politics of Canadian economic policy, drawing on the four papers in this volume as well as on three major studies: on tax and expenditure budgeting, on economic regulation, and on the evolution of the administrative state.[1] Each deals with particular manifestations of the changing role of the state and of governments, and consequently with the changed relationships with private markets, interests, and individual citizens.

Economic policy is defined for our purposes to include macroeconomic policy (fiscal and monetary), industrial and regional policy, resource policy, policies for income security, and labour market policy. Four of the papers in this volume deal directly with these component policy fields. In addition, this particular paper looks at environmental policy, both in the context of economic regulation versus social regulation and as an embodiment of ideas that contain a fundamental effort to redefine the nature of economic development. Industrial and regional policies are examined more directly in other parts of the Commission's publications, but they also enter the analysis in this volume in significant ways.[2] This arises in part out of the political interconnections among the above policy fields, which impact territorially (that is regionally) and sectorally; and in part out of the

broader political connections among governing instruments such as budgeting and regulation, and out of the pervasive institutional presence of the modern bureaucracy. The latter is itself the workplace for one-fifth of the Canadian work force, as well as being the institutionalized embodiment of major public policy programs — expenditures, taxes, regulations, and publicly owned enterprises.

This paper is organized in five parts. The first provides the conceptual introduction to the three dimensions of politics on which the analysis is focussed; this is set against a brief background account of the nature and growth of the state in the Canadian economy. The next three sections examine the research studies in relation to individual dimensions of politics: goals and ideas; interests and power; and key decision structures and processes. The final section presents conclusions about the likely or possible implications of these combined political features on the conduct of economic policy and on the role of the state in the economy.

In broad terms, I see little room for the depoliticization of economic policy. While there may or should be a reduction in state intervention in some fields, intervention is likely to increase in others. Our research strongly suggests that the tendency to broaden the very definition of economic development, a tendency which has been evident in the past two decades as a whole, is likely to be a fairly permanent reality given that the underlying ideas have a significant base of support among Canadians and are significantly entrenched within the structure of the state. Several studies point to the conclusion that social programs are a vital precondition for economic development rather than being just a "safety net." The cause of deficits lies as much on the revenue side as on the expenditure side and must be linked to the basic shifts in power and to basic representative features vis-à-vis business, labour, and other interests. Our studies also show the partial decline of macro-policy as a distinct policy event linked to the budget speech. They point to the need to treat the issue of budget reform in a much broader context than has been customary in recent debate, and they advocate reforms which would result in a greater balance of scrutiny of the tax system versus the expenditure system and a greater scrutiny of private interests by Parliament. Other more particular conclusions are offered about the individual policy fields, including the political nature of the employment-inflation trade-off, the intergovernmental coordination of resource rents, and the likelihood of expanded social-environmental regulation.

After looking at several policy fields concurrently as well as at several basic policy instruments, including the evolution of the administrative state itself, this paper offers several broad conclusions about the modern role of the state in the Canadian economy. The paper emphasizes that the role of the state in the economy goes well beyond the role of government in that it consists of reliable patterns of basically valued relations reflected in the "tax system," the "regulatory system" and the "expen-

diture system," and it embraces a complex network of institutions and the values embodied in them and among them. An understanding of the role of the state also increasingly requires the need to differentiate two kinds of political power, namely the power to adopt policy and the power to implement. In the case of the former, the paper points to considerable variations of power in the 1960s versus the 1970s and among interests in different policy fields. The latter dimension of power draws attention not just to the things that administrators do but to a far wider range of private implementors, that is, private interests and citizens who are expected to respond to numerous cues so that behaviour can be changed in sustained ways but who may oppose such measures or who may simply be disinclined to be fine tuned.

While increases in the power of business interests are shown in the macroeconomic realm, these do not necessarily hold true in the formulation of microeconomic policy. The shifts in power must be linked to the content of ideas as separate political variables and to the entrenched nature of policy making and administrative structures. They must also be judged against the basically concurrent double axis of Canadian political institutions, a dual axis which produces a simultaneously operating triad of public, private, *and* intergovernmental relations of power and manoeuvrability, rather than government-business and federal-provincial relations in isolation.

Core Political Dimensions

To set the context for the analysis, three initial tasks are necessary: to introduce the three core political dimensions on which we focus; to take stock of the institutions that define what the state is in the conduct of economic policy in the 1980s; and to outline key data on the growth of government as reflected in the main instruments of governing, such as taxation, spending, regulation, and public enterprises. The last two are not the mere taking of political inventory. Rather, they constitute the initial evidence about the politics of economic policy: the net array of goals and ideas, interests and power, and structures and processes that now exist. The presentation of basic data on the growth of policy instruments, though often viewed as mere numbing statistics, is a vital form of literacy. Those who seek to avoid such data or who have no underlying sense of the macro array of institutions will begin with an elegant blank page and will accordingly be doomed to reach blank conclusions.

The Three Dimensions of Politics

To gain an appreciation of the politics of economic policy, we shall examine the following three dimensions, looking at them individually and also in relation to one another:

- the goals, ideas, and values at stake and in partial conflict, both within and across the policy fields and instruments that are embraced by economic policy;
- the exercise of power (that is, actual relative capacities to act) by interests in both public-private and intergovernmental relationships and configurations of power; and
- the core decision-making structures and processes, including the executive/bureaucratic dynamics and the behaviour of key single organizations.

Given that a person's conception of politics is often confined to notions of electoral politics or perhaps even more narrowly to "low forms of human behaviour carried out by others," it is necessary to elaborate on these three dimensions, first conceptually and then in relation to the institutional stocktaking and to the data on instruments.

The realm of goals, ideas, and values is quintessentially political.[3] Politics is purposeful as well as calculating. It is a process that seeks to allocate, balance, and at times judge and subvert a range of ideas advocated by interests which possess varying degrees of power. These are reflected at different levels of expression. At the broadest level, they include basic ideologies such as liberalism, conservatism and socialism, which are variously articulated by political parties as a whole and within political parties as well. In more particular ways they include dominant recurring ideas such as efficiency, equity, stability, individual liberty, equality, nationalism, and regionalism. These ideas are part of the content of many if not most policy fields, as well as of the debate on key instruments. For example, tax reform debates are imbued with contending claims that reform should produce a tax system which is simultaneously stable, equitable, sensitive to taxpayer rights, regionally fair, and which also promotes economic efficiency and a progressive redistribution of income from rich to poor. At still another level, ideas enter through more particular expressions such as Keynesianism, monetarism, a conservation ethic, and so on.[4]

In each policy field and in debates about instrument reform, this paper will examine the evolution of ideas, how they are rhetorically expressed and repackaged, and how elected politicians and different interests deal with the goals they are attempting to reach and accommodate. It is obvious that political leaders cannot implement all these ideas, but it is a mistake to regard their persistent articulation of such ideas as being either "motherhood" or meaningless words, or simply expressions of the "public interest" dolled up to conceal coalitions of merciless self-interest. An essential part of democratic politics is the persistent act of communicating basic ideas and values, and of acting on them with varying degrees of effectiveness. Almost by definition, this sets politics on a significant collision course with purer notions of economics or

market processes, even though the functioning of free markets and the pursuit of efficiency is a continuing part of Canada's individual and collective belief structure.

The notion of power, or the capacity to act, is certainly central to an understanding of how economic policy is made and what policies are pursued. Professional knowledge groups may wish to cubbyhole economic policy into its "macro" and "micro" categories, into distinct policy fields, and into distinct policy events (e.g., the budget speech process, or the latest consultative round of competition policy meetings), but the actual exercise of power does not always obey these categories. Obviously we still need some of these categories to order both debate and analysis and to help structure power, but they are themselves insufficient. Power is not evenly distributed; different interests have different capacities to act, and they articulate different ideas and different views of what the priorities should be. They do not always agree on how the past should be interpreted, let alone what the future holds and what risks should be taken. Accordingly, we shall examine some of the key changes in the power of interests over the past three decades.

Ideas and the power of interests interact through a wide variety of overall and particular decision structures and processes. While these structures and processes are numerous, the existence of such complexity should not be confused with the existence of some kind of benign pluralistic equality of representation in such structures.[5] The most broad-scale "process" is the conduct of an election itself, and the related operation of partisan politics and political parties. The organization and dynamics of cabinet are a further major forum interacting both in response to and in anticipation of the views of Opposition political forces in Parliament and outside it. The processes of regulating, taxing, and spending often constitute separate realms of decision making, which in part live lives of their own because different interests want them to operate that way. Yet, in combination, they may produce an overall configuration of decisions which may later be shown to be producing very adverse effects. The decision process is also characterized by diverse criteria about what constitutes proper consultation.[6] Some want slow, careful, measured consultation. Some want decision action. Some want both. We shall also, therefore, highlight some of the key developments in the overall decision process and in particular core structures.

The State in the Economy: A Stocktaking of Institutions

The trio of political dimensions introduced above is conceptually necessary, but it can only begin to make practical sense through an apprecia-

tion of what the modern Canadian state is. In short, it requires a stocktaking of institutions. Government, in the sense of the executive organization and administrative structure, is but one part of the state. The state is much more than government in executive form. The state is an amalgam of institutions, some formally constitutionalized, others less formally entrenched but nonetheless omnipresent. Thus, the state is simultaneously cabinet parliamentary government, federalism, and now the Charter of Rights and Freedoms, but it is also political parties, a complex structure of interest groups and interests, the courts, and even the mass media.

Of equal importance, the state is simultaneously the cumulative embodiment of many but not necessarily all of the goals and values of Canadians, some of which harmoniously reinforce one another, while others are in perpetual tension. Moreover, as Cairns and Williams have stressed in volume 31 of the Commission studies,[7] the state has a role in society which cannot be reduced to economic terms. In Canada, this includes the political and social management of our growing ethnic diversity, of relations between men and women, of language, and of competing lifestyles. In the evolution of the international and global political economy, moreover, we have seen the growing role of the state in the management of international society and economy in all its trade, defence, and ecological manifestations.[8] All of these broader dimensions of the role of the state must be kept fully in mind in this paper because they govern and set the context for what might be said about the more specific role of the state in the economy.

The institutional framework that both defines the state and influences its behaviour is complex. Institutions are well-established systems of behaviour rooted in important values. Institutions do change, but they usually change slowly, precisely because they are anchored in important values. Moreover, institutions can really only be understood in relation to one another, and not just as isolated entities. When examining the institutional framework for economic policy, it is not clear that everyone starts with the same list of institutions, let alone views each institution in the same way or with the same order of importance. Some basic institutional stocktaking is therefore necessary in much the same way that one needs to appreciate basic features of the main sectors of the economy, such as manufacturing, resources, the service sector, and capital markets.

Table 1-1 provides a portrait of the array and levels of institutions. First, there are the three overarching institutions that have a formal constitutional status, namely federalism, parliamentary government, and the Charter of Rights and Freedoms. The newness of the Charter makes its impact less known, but it could be vital in the decades to come. The fourth overarching institution is capitalism itself, which is based on a

belief in the political and economic value of free markets. Canada's political parties and the party system could easily be cast as a fifth overarching institution (most references to parties in this paper are in relation to parliamentary government and the evolution of bureaucracy).

At a minimum, these institutions suggest that one must increasingly view the exercise of power in Canada as being founded on a double axis of public-private and intergovernmental relationships of power. Thus, most issues involve at least a simultaneous triad of relationships among interests. There is a sense in which this is self-evident, though at the same time, it is not always understood. This theme will be developed throughout the paper.[9]

The intermediate or middle-level institutions listed in Table 1-1 are in one sense very familiar, but their roles in economic policy formulation are perhaps not as readily grasped. The administrative state, the structure of interest groups and interests, the mass media, the collective bargaining system, and intergovernmental fiscal arrangements are all part of the institutional framework. "The administrative state" refers to the elaborate amalgam of departments, agencies, regulatory boards, and Crown and mixed enterprises that we often characterize as "the bureaucracy" when we are concerned about its power and insensitivity, and as "the public service" when we remember that it is the vehicle for delivering valued goods and services. The administrative state is itself a significant part of the economy in terms of employment (one-fifth of the labour force), but it is simultaneously viewed by many as an encumbrance to a dynamic, adaptive economy.

The structure of interest groups and interests is not as formally recognized in the Constitution as federalism and parliamentary government are, but it is rooted in a strong belief in the right of Canadians to associate freely. Table 1-2 presents a sample array of interest groups and interests, including those of business and labour. This simple portrait is necessary because it is not readily apparent that either business or labour is homogeneous as a separate category of economic and political power. Not only are there several interest groups within each category, but there is also the need to distinguish interests from interest groups. Interests are entities which have, within limits, the actual capacity to act, as distinct from merely lobbying. Several large companies command resources that exceed those of some of the smaller provincial governments and have their own avenues of access to political decision makers. Individual provinces can be considered interests in this vein as well, in that they interact bilaterally with the federal government and with other provinces, as well with private interests.

These realities alone make it difficult enough to devise consultative processes and forums; but there are even larger issues at stake regarding the sheer growth in the number and type of interest groups and interests.

TABLE 1-1 A Stocktaking of Institutions

Overarching Institutions	Middle or Intermediate Institutions	Particular Structures and Processes (Often Specific Organizations)
Federalism	The administrative state (federal, provincial, local)	Key government economic agencies e.g., Department of Finance Bank of Canada Department of Regional and Industrial Expansion (DRIE) Economic policy advisory bodies
Cabinet parliamentary government (including political parties)	Interest groups and interests (see Table 1-2)	
The Charter of Rights and Freedoms, and the judicial system	The mass media	
	The collective bargaining system	
Capitalism	Intergovernmental fiscal arrangements	Policy instrument processes the tax process the expenditure process the regulatory process the public enterprise process
		Foreign and international bodies e.g., U.S. Federal Reserve General Agreement on Tariffs and Trade (GATT) World Bank Organization for Economic Co-operation and Development (OECD)

TABLE 1-2 An Illustrative Profile of Canadian Interest Groups and Interests in the 1980s

Overall Macro Interest Groups	More Specific Interest Groups	Examples of Interests (Separate Capacities to Act)
Business	Canadian Mining Association	Individual Corporations
Business Council on National Issues	Canadian Banking Association	Macmillan Bloedel
		Imperial Oil
Canadian Manufacturers' Association	Canadian Petroleum Association	Petro-Canada
		Ontario Hydro
Canadian Chamber of Commerce	Canadian Union of Public Employees	Nova
Canadian Federation of Independent Business		Individual Governments
	United Auto Workers	
Labour		Ontario
	Retail Council of Canada	Quebec
Canadian Labour Congress		Canada
Canadian Federation of Labour		Alberta
Quebec Federation of Labour		
		Cross-cutting or Overlapping Interests
Collective Rights Associations/Groups		
		Non-union workers
Consumers' Association of Canada		Foreign-owned multinationals
		Canadian-owned multinationals
Environmental Groups		Junior oil and gas companies
National Action Committee on the Status of Women		
Canadian Civil Liberties Association		

At one level, it is argued by some that such interests are engaged to such an extent in protecting themselves that more and more resources are consumed to this end, rather than in generating wealth.[10] At another level, such interest groups demand more forums of participation. Non-producer interest groups such as consumers, environmentalists, and women, to name only three, face greater difficulties than producer interest groups in maintaining a sustained organizational presence, since they are much more diffuse and more broadly based, and since they cut across all sectors of the economy.

The mass media, especially television, are a vital institutional presence, but with the usual mixture of good and harmful effects on the overall conduct of, and debate about, economic policy. On the one hand, a free and critical media is vital to economic debate and to the development of a common-sense economic and political understanding of the problems that face the country and its regions. On the other hand, the short attention span of media coverage contributes significantly to the pressure on governments to be seen to be "doing something," and it unduly simplifies the nature of the debate on underlying problems.[11] The media and the degree of party partisanship are also interrelated. The media tend to focus on controversy and on personal leadership battles, distorting to some extent the real choices available. It is not the media themselves which are the only cause of these phenomena. Rather, they arise from a combination of connections between the media and other institutions.

Canada's system of collective bargaining is also an important part of the institutional framework. The system is founded on a hard-won belief in the democratic value of such freedom to bargain. It is, therefore, central to the very existence of unions and to their contribution to the quality and nature of democratic life, economically and politically. The system of bargaining has been the focal point of numerous kinds of reform.[12] Public sector collective bargaining, for example, was established in the 1960s but has never had the same degree of freedom enjoyed in the private sector bargaining system. Moreover, as we shall show later, it has helped transform the way many Canadians perceive the administrative state and "the bureaucracy." As a result, some Canadians wish to see public sector rights limited further. On a broader scale, the system of bargaining has been suggested as the focal point for new gain-sharing and job-security provisions to facilitate the introduction of new technology and increased productivity. The imposition of wholesale wage and price controls, or more targeted public sector wage control efforts such as the "six and five" program of 1982–83, obviously affect collective bargaining rights as well as affecting the views of working Canadians of what is equitable treatment in the overall formulation of economic policy.

The final middle-level institution is the system of intergovernmental financial arrangements. These arrangements, including equalization payments, Established Programs Financing and tax agreements, affect the development of economic policy, both directly and indirectly. In a direct sense, many of these arrangements embody a commitment to a national goal of maintaining basic public services for all Canadians. This is the case for equalization arrangements and in a different sense for key social and educational financing. In an indirect sense, they affect the degree of fiscal manoeuvrability that federal and provincial governments have.

Table 1-1 also contains a list of more particular structures and processes, including individual organizations that are also part of the institutional framework for economic policy formulation. These include the Department of Finance (and provincial treasuries), the Bank of Canada, various other economic departments such as the Department of Regional Industrial Expansion (and its several predecesssor ministries and departments), and the economic advisory bodies such as the Economic Council of Canada and other private sector policy institutes such as the Conference Board, the C.D. Howe Institute, and the Fraser Institute. The key federal departments are important not only for the decisions they can or cannot make but also in terms of the issues they raise about the degree of concentration of political power tolerated within a cabinet on economic matters. The presence of economic institutes has broadened the base of economic debate, but it has simultaneously produced a cacophony of forecasts. Also listed here, but in a way that underplays their importance as institutions, are international and foreign institutions such as the U.S. Federal Reserve, the General Agreement on Tariffs and Trade (GATT), the World Bank, and the Organization for Economic Cooperation and Development (OECD). The first two, in particular, present increasing constraints on Canada's degree of freedom respecting economic policy.[13]

The above stocktaking of institutions is by no means a complete one. For example, if basic social institutions were included, it would be vital to stress changes in the nature of the family, since they affect the definition of what a modern household is and extend to different definitions of individual well-being and views of what full employment now constitutes.

The State in the Economy: The Growth of Government and the Use of Governing Instruments

The second stocktaking exercise that is necessary to understand the role of the state in the economy is that of linking the various data about the growth of government to the political nature of the main instruments of

governing. The instruments include spending, taxation, regulation, public enterprise (Crown and mixed ownership enterprise), and various kinds of exhortation or suasion.

While these policy instruments easily imply that they are the "means" or the "techniques" of government, they are far more than that.[14] This is because they help define actual decision-making power and are themselves the object of political dispute. In democratic politics, both the ends and the means matter a great deal. Because of this and because of the entrenched history and evolution of these instruments, each category is often treated as a kind of institution in itself. Thus, one frequently hears debate focussed on the need to reform the "tax system," to change the process of "expenditure accountability," to "deregulate" the economy, and so on. In this vital political sense, instruments are never neutral.

The trends in the growth of government revealed through such an inventory of instruments provide only a first proximate account of the values or goals being pursued through the Canadian political system. The interpretation of data about these trends is almost always in dispute, not only at this general level but also at detailed levels. Our brief survey cannot escape this reality either. But one must begin with the general data and then later relate them in different ways to the political dynamics contained in our threefold approach to the politics of economic policy.

For example, one can begin by considering how Canada compares with other countries. Usually assessed in relation to expenditure and taxation, Canada generally falls in the lower half of the pack in comparison to other Western countries. As David Wolfe's paper, the second in this volume, shows, between 1960 and 1980 the size of the public sector in Canada grew at a slower rate than in every OECD country other than the United States. In 1980, public sector spending as a percentage of Gross Domestic Product (GDP) was smaller in Canada than in other OECD countries except for the United States and Japan. The data in Table 2-5 of Wolfe's analysis shows that Canada is ranked in the lower half of Western countries in terms of the tax revenue as percentage of GDP. The tax burden was lower in the United States. For some critics of government, as we indicate later, this is the only comparison that matters.

Taxation and Spending

Within Canada, each instrument category leads to its own cluster of interpretations. Data in Table 1-3 suggest that tax expenditures, that is, the use of tax measures to pursue various public policy purposes, virtually tripled in the 1970s, showing a far higher rate of growth than that of regular spending.[15] Such tax expenditures are generally more valuable as taxable income increases and thus they cumulatively reduce the progressivity of the tax system. Yet each individual tax measure was

viewed, by at least some interests and policy makers, as being desirable for some specific policy purpose, including economic development defined broadly. Indeed, as we show below, many private interests do not regard tax incentives as acts of government intervention.

Table 1-4 shows changes in the ratio of government expenditure to Gross National Product (GNP), which is but one way of assessing such trends.[16] Government expenditure as a percentage of GNP was somewhat higher relative to the economy in 1950, after the postwar adjustment period, than it had been immediately prior to the Depression. It then increased strongly over the next 25 years. Other components of Table 1-4 reflect important shifts. The ratio of government expenditures on current goods and services to total consumption in the economy was slightly higher in 1950 than in 1926, largely reflecting higher defence expenditures. It rose substantially from 1950 to 1960, reflecting growth in most categories of government operations, but particularly in education. It increased again in the 1960s, in spite of a decline in defence expenditures relative to GNP, reflecting, most importantly, further growth in education expenditures and the assumption of major new roles by government in the hospital and medicare areas. Government consumption showed only modest further growth relative to total consumption in the 1970s. This is an important fact to stress, considering that criticism of government intervention emerged strongly in the 1970s. Direct consumption activities of government are among the most direct kinds of intervention, yet there is little evidence of growth of this kind during this peak period of criticism.

On the other hand the fraction of total personal income provided by government transfer payments, such as the old age pension, guaranteed income supplement, unemployment insurance, family allowance, and welfare payments, increased in each postwar decade. It too, however,

TABLE 1-3 Personal and Corporation Income Tax Expenditures

	% Growth over Previous Year	% of Total Budget Revenues	% Growth over Previous Year	% of Total Budget Revenue
1972	—	13.6	—	11.6
1973	25.3	13.3	71.2	15.4
1974	47.5	15.1	39.1	16.6
1975	28.8	17.5	6.3	15.9
1976	15.4	18.6	−14.6	12.5
1977	13.0	20.5	9.3	13.3
1978	35.0	26.3	—	—

Source: Allan M. Maslove, Michael J. Prince and G. Bruce Doern, *Federal and Provincial Budgeting: Goal Setting, Coordination, Restraint and Reform*, volume 41 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).

TABLE 1-4 Relative Size of Government

	National Accounts Basis				
	1926	1950	1960	1970	1980
Expenditures of total government sector as share of GNP[a]	15.7	22.1	29.7	36.4	41.9
Government current expenditure on goods and services as % of consumer plus government current expenditures on goods and services	10.0	13.4	17.2	24.8	25.9
Government fixed capital formation as % of total fixed capital formation	13.0	13.5	18.4	17.6	12.0
Government transfer payments to persons as % of total personal income	1.8	7.2	10.4	10.5	12.5
Government wages and salaries as % of total wages and salaries[b]	10.3	12.0	16.3	23.1	24.4

Source: Statistics Canada.
a. Net of intergovernmental transfers.
b. Wages, salaries and supplementary labour income (including military pay and allowances).

tended to level off from 1975 to 1981, before increasing again during the recession of 1982–83. The overall upward trend reflected the successive introduction of major new social programs. However, social spending did not expand in the last half of the 1970s, a point to which we shall return in the discussion of the politics of deficits.

While the expenditures of each level of government have grown relative to the economy over the postwar period as a whole, Table 1-5 shows that expenditures at the provincial level have increased the fastest, followed by the local sector and in turn by the federal sector. This generalization is based on final expenditures; that is, with intergovernment transfers not included as part of the expenditures of the government providing the transfer. Alternatively, expenditures might be viewed in terms of which government provides the funds. In this case, intergovernment transfers would be counted as part of expenditures of the government making the transfers and be netted out against the total expenditures of the recipient government. From this perspective, the provincial sector has still shown the most growth, but it is now followed by the federal government and then the local government sector. The larger growth at the provincial level is of political importance in that the government level that was, arguably, perceived to be the most "out of control" in the 1970s, was the federal government.[17]

TABLE 1-5 Shares of Total Government Spending by Level of Government

	National Accounts Basis				
	1926	1950	1960	1970	1980
Before Intergovernment Transfers[a]					
Federal	39.6	58.1	59.3	49.0	49.1
Provincial-hospital	20.5	23.8	22.4	34.8	37.8
Local	39.9	18.2	18.3	15.8	10.9
CPP/QPP	—	—	—	0.4	2.1
Total	100.0	100.0	100.0	100.0	100.0
After Intergovernment Transfers[b]					
Federal	37.8	51.9	50.5	38.1	38.8
Provincial-hospital[c]	20.2	26.0	24.8	35.7	39.1
Local	42.0	22.1	24.7	25.8	20.0
CPP/QPP	—	—	—	0.4	2.1
Total	100.0	100.0	100.0	100.0	100.0

Source: Statistics Canada.
a. Expenditures net of intergovernmental transfers received.
b. Expenditures net of intergovernmental transfers paid to other levels.
c. Includes "hospital" sector starting in 1981.

Table 1-6 provides a detailed functional breakdown of federal expenditures over a 23-year period, from 1960 to 1982. In 1982 the largest

proportion is accounted for by social service programs. Debt-servicing costs and programs on agriculture, industry, trade and tourism are the next largest categories. When looked at in terms of constant dollars, social service spending grew in relative terms during the 1970s but has fallen back slightly in recent years. Agriculture, industry, and trade and tourism expenditures have grown over most of the period shown, but not at a uniform rate. Debt-servicing charges declined in relative terms until about 1974, but since about 1978 these expenditures have risen at a fairly rapid rate. The share of total spending accounted for by national defence has declined steadily over the entire period.

These data do convey some of the realities of the goals and priorities of the federal government since 1960. Social welfare and health policies were priorities in the mid- to late 1960s. Defence policy was a lower- level priority. Industrial and economic development policy was never unimportant but occupied a somewhat more episodic place on the priority list. Moreover, other priorities emerge in these data even though they do not produce big numbers. Thus, the "quality of life" issues involving the environment and leisure creep into the data in the early 1970s.

In other respects, these data mask priorities or reveal unintended priorities. This becomes more apparent when one looks more closely at the last decade. In one sense, the growth of debt-servicing costs in that decade is hardly an intended priority outcome. On the other hand, it partially is, since it is a product of decisions to maintain social programs and automatic stabilizer programs, and to forego tax increases, despite criticisms that the deficit was alarmingly high. It also reflects decisions on interest rates and exchange rate policy. The fact that interest costs escalated and that larger deficits were in fact incurred has implications for assessing political power. On the one hand, it suggests that federal policy makers may be powerless vis-à-vis international interest rates, especially those of the United States. On the other hand, if very high deficits have been tolerated despite continual business pressure against them, it may mean that business power is not as great as advertised, or at least has not been so in the last decade. After other kinds of evidence have been examined, we shall return to such possible implications of these data.

The masking of priorities can occur in several ways. The health care priority was enunciated in the mid- 1960s, but the greatest expenditure impact was in the early 1970s as the program matured. This delayed effect was also present in other program areas of no small magnitude. For example, it was in 1974 that the decision was made to establish a petroleum compensation program as a national priority to protect eastern Canadian oil consumers, who were dependent on imported oil; but it was in 1979 that the expenditures ballooned overnight from $1 billion to almost $4 billion, virtually *doubling* the annual deficit. These phenomena

too must be examined when dealing with the "causes" of deficits and the links between macro- and microeconomic policy.

In addition to masking by delayed effect, priorities are masked by the ways in which the data are assembled and/or interpreted. The data on defence could be taken at face value and regarded in *defence* policy terms only. Alternatively, the size and composition of the decline in defence spending, when linked to industrial procurement, may easily lead to a view that overall *industrial and economic development* spending has declined in real terms relative to what it would have been with higher defence spending. This is because defence spending has significant capital and weapons procurement dimensions. There is also a significant regional distributive impact from defence personnel spending, in that defence establishments are to a significant extent more midely dispersed across the country (particularly in Quebec and Atlantic Canada) than is the regular bureaucracy. Canada–U.S. comparisons are highly germane in this regard as well. For example, the Reagan government's policies, which are categorized by some as noninterventionist and a "roll-back" of the state, look very different when defence spending is considered. Reaganomics becomes Keynesian defence pump-priming economics incarnate.[18]

At an aggregate level, the Maslove, Prince and Doern study shows that provincial expenditures grew rapidly until the mid-1970s, at which point they flattened out or grew much less dramatically.[19] In constant dollar per capita terms, expenditures in most provinces have actually declined or ceased to grow since the peak they reached in the late 1970s.

The components of aggregate spending were quite consistent across provinces in contrast to the revenue budgets, which showed considerable interprovincial variation. Health care and education constituted the two largest claims on provincial budgets over virtually the entire period shown in the tables. Together, they accounted for 40–50 percent of total provincial spending. The relative size of education peaked in the late 1960s or early 1970s in all provinces and declined somewhat since then, though not following any regular pattern. Health care costs as a share of the total remained constant or rose in all provinces except Saskatchewan. That province was able to reduce these costs when the national medicare scheme superseded the provincial plan which had previously been operating in Saskatchewan.

Three other expenditure items exhibited consistent trends across provinces. The cost of servicing provincial debts generally rose between 1960 and 1982, both in absolute terms (constant dollars per capita) and as a share of total spending. The increase was not constant, however, and there is no reason to conclude that the trend line will be upward sloping in the future. Social service expenditures were increased in relative terms in virtually all provinces. Transportation and communications

TABLE 1-6 Federal Government Expenditure Functions, 1960–82

Functions	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
General Government											
per capita (current $)	14	15	16	16	16	14	17	21	23	33	35
per capita (constant $)	26	26	26	26	25	21	25	29	29	40	39
% change (constant $)		1.9	4.8	−1.5	−1.2	−14	20.7	18.7	3.5	17.0	−1.2
% of total expenditure	4.0	4.0	4.0	3.9	3.9	3.3	3.9	4.3	4.1	5.4	5.2
Protection of Persons and Property											
per capita (current $)	4	4	5	5	5	7	8	9	11	11	13
per capita (constant $)	8	8	8	8	8	11	12	13	14	14	14
% change (constant $)		0.9	7.2	5.5	−0.3	33.6	12.4	9.0	8.3	21.3	6.6
% of total expenditure	1.2	1.2	1.2	1.3	1.3	1.7	1.9	1.9	1.9	1.9	1.9
Defence Spending											
per capita (current $)	88	86	90	86	91	81	80	83	88	87	86
per capita (constant $)	158	149	152	141	143	123	115	113	111	104	95
% change (constant $)		−4.0	4.1	−5.4	3.1	−12	−4.5	−0.4	0.2	−4.8	−6.7
% of total expenditure	24.4	23.3	23.0	21.8	22.2	19.1	17.9	16.6	15.6	14.2	12.9
Transportation and Communications											
per capita (current $)	22	21	24	23	24	28	30	33	32	29	28
per capita (constant $)	39	36	40	38	37	42	44	45	41	34	31
% change (constant $)		−3.3	10.7	−1.3	−0.7	13.9	7.1	5.1	−8.2	−15.0	−73.
% of total expenditure	6.0	5.7	6.0	5.9	5.8	6.5	6.8	6.7	5.7	4.7	4.2
Health Expenditures											
per capita (current $)	13	15	20	23	26	28	25	26	31	36	49
per capita (constant $)	23	26	34	38	41	43	36	35	39	43	55
% change (constant $)		13.8	32.7	13.6	10.7	6.0	−15.0	−0.2	12.7	14.0	27.6
% of total expenditure	3.6	4.1	5.1	5.8	6.4	6.6	5.5	5.1	5.4	5.9	7.4

TABLE 1-6 (cont'd)

Functions	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
General Government												
per capita (current $)	47	51	58	63	76	83	100	112	120	123	145	165
per capita (constant $)	49	51	53	53	57	52	55	57	56	53	55	55
% change (constant $)	27.8	4.9	5.7	2.2	7.4	−7.5	7.5	5.0	−0.1	−5.0	5.1	1.8
% of total expenditure	6.3	6.1	6.0	5.7	5.5	5.1	5.6	5.7	5.6	5.1	5.1	5.1
Protection of Persons and Property												
per capita (current $)	15	16	18	22	27	34	39	48	49	52	60	68
per capita (constant $)	15	16	16	19	20	21	22	24	23	22	23	23
% of change (constant $)	7.1	3.2	5.7	15.2	8.7	7.4	4.3	12.9	−3.1	−2.4	2.3	2.0
% of total expenditure	2.0	1.9	1.9	2.0	1.9	2.1	2.2	2.4	2.3	2.2	2.1	2.1
Defence Spending												
per capita (current $)	81	87	88	96	102	116	140	157	174	185	205	240
per capita (constant $)	85	85	80	82	76	72	77	79	81	79	78	80
% change (constant $)	−9.9	1.6	−4.7	3.3	−6.4	−2.9	7.7	4.2	3.6	−1.2	−1.2	4.5
% of total expenditure	11.0	10.3	9.1	8.7	7.4	7.1	7.8	7.9	8.1	7.7	7.3	7.4
Transportation and Communications												
per capita (current $)	48	56	63	80	98	109	120	127	139	138	177	171
per capita (constant $)	51	55	58	68	73	68	66	64	65	59	67	57
% change (constant $)	64.5	9.5	5.9	19.9	7.9	4.6	−2.7	−0.7	2.2	−8.0	14.4	−14.0
% of total expenditure	6.6	6.6	6.5	7.3	7.1	6.7	6.7	6.4	6.5	5.7	6.3	5.3
Health Expenditures												
per capita (current $)	61	74	82	819	103	123	144	134	164	177	183	195
per capita (constant $)	64	73	75	75	76	76	79	68	77	76	69	65
% change (constant $)	19.6	14.8	4.1	1.5	2.1	2.3	4.3	−13.0	13.7	0.1	−7.8	−4.7
% of total expenditure	8.3	8.8	8.6	8.0	7.4	7.5	8.0	6.8	7.6	7.3	6.5	6.0

TABLE 1-6 (cont'd)

Functions	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Labour Employment and Immigration											
per capita (current $)											
per capita (constant $)											
% change (constant $)											
% of total expenditure											
Housing											
per capita (current $)	0	0	0	0	0	0	1	1	1	1	2
per capita (constant $)	0	0	0	0	0	1	1	1	1	2	2
% change (constant $)		70.4	32.5	2.5	4.7	97.4	42.4	−19	16.8	82.9	17.0
% of total expenditure	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.3
Development of Regions and Localities											
per capita (current $)											
per capita (constant $)											
% change (constant $)											
% of total expenditure											
Foreign Affairs											
per capita (current $)	5	6	5	4	5	7	8	13	11	10	12
per capita (constant $)	10	10	8	7	8	11	12	17	14	12	13
% change (constant $)		0.8	−15.0	−11.0	20.5	31.7	10.7	49.0	−19.0	−8.6	10.6
% of total expenditure	1.5	1.5	1.2	1.1	1.3	1.7	1.8	2.5	1.9	1.7	1.8
Research of Enterprises											
per capita (current $)											
per capita (constant $)											
% change (constant $)											
% of total expenditure											

TABLE 1-6 (cont'd)

Functions	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Labour Employment and Immigration												
per capita (current $)	7	13	22	15	15	20	20	21	25	30	32	36
per capita (constant $)	8	13	21	13	11	12	11	11	11	13	12	12
% change (constant $)		71.8	57.7	−37.0	−9.7	8.9	−11.0	2.4	7.0	11.6	−2.6	0.3
% of total expenditure	1.0	1.6	2.3	1.4	1.1	1.2	1.1	1.1	1.1	1.2	1.1	1.1
Housing												
per capita (current $)	2	3	5	6	9	15	21	22	29	34	42	45
per capita (constant $)	2	3	4	5	7	9	12	11	13	15	16	15
% change (constant $)	2.4	61.0	31.7	28.8	33.7	34.3	26.6	−1.9	20.5	11.1	8.0	−4.3
% of total expenditure	0.3	0.4	0.5	0.6	0.7	0.9	1.2	1.1	1.3	1.4	1.5	1.4
Development of Regions and Localities												
per capita (current $)	3	7	6	7	7	6	5	5	5	4	7	6
per capita (constant $)	3	6	6	6	5	4	3	3	2	2	3	2
% change (constant $)		130.0	−7.7	−4.1	−9.0	−21.0	−29.0	−6.3	−5.3	−21.0	40.5	−27.0
% of total expenditure	0.4	0.8	0.7	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.2	0.2
Foreign Affairs												
per capita (current $)	14	14	18	20	26	33	35	48	41	44	45	52
per capita (constant $)	14	14	16	17	19	21	19	24	19	19	17	17
% change (constant $)	8.9	0.9	15.5	6.0	15.4	8.1	−6.4	29.0	−21.0	0.0	−8.8	3.5
% of total expenditure	1.8	1.7	1.8	1.8	1.9	2.0	1.9	2.4	1.9	1.8	1.6	1.6
Research of Enterprises												
per capita (current $)	18	15	13	14	15	22	18	31	30	38	45	44
per capita (constant $)	19	15	12	12	11	14	10	16	14	16	17	15
% change (constant $)		−19.0	−22.0	1.0	−6.2	30.2	−27.0	60.6	−12.0	19.3	4.7	−11.0
% of total expenditure	2.4	1.8	1.3	1.2	1.1	1.4	1.0	1.6	1.4	1.6	1.6	1.4

TABLE 1-6 (cont'd)

Functions	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Equalization Payments											
per capita (current $)	26	27	26	11	10	14	18	21	27	31	35
per capita (constant $)	47	47	44	18	15	22	26	29	35	37	38
% change (constant $)		0.6	−3.3	−59.0	−14.0	47.1	20.4	14.0	21.6	8.8	5.4
% of total expenditure	7.3	7.3	6.7	2.8	2.4	3.4	4.0	4.3	4.9	5.1	5.2
Total General Purpose Transfers											
per capita (current $)	31	32	31	17	15	20	22	28	39	45	48
per capita (constant $)	56	55	52	27	24	31	32	38	49	54	53
% change (constant $)		0.3	−2.4	−47.0	−9.9	30.4	4.1	23.2	31.5	10.7	−0.4
% of total expenditure	8.6	8.6	7.9	4.2	3.8	4.8	4.9	5.6	6.9	7.3	7.1
Social Welfare Transfers											
per capita (current $)	89	91	97	102	106	111	115	124	146	158	171
per capita (constant $)	159	157	162	168	166	168	166	168	185	190	189
% change (constant $)		0.8	5.2	5.5	0.8	3.3	0.5	3.4	11.9	4.0	1.1
% of total expenditure	24.6	24.7	24.5	25.9	25.9	26.1	25.9	24.8	28.6	25.9	25.5
Education Transfers											
per capita (current $)	4	4	5	15	11	11	15	22	22	29	30
per capita (constant $)	7	6	9	24	17	17	22	29	28	34	34
% change (constant $)		−10.0	40.7	187.0	−28.0	1.1	30.5	36.8	−1.9	23.7	−0.4
% of total expenditure	1.1	1.0	1.3	3.7	2.7	2.6	3.4	4.3	4.0	4.7	4.5
Total Transfers											
per capita (current $)								87	105	118	134
per capita (constant $)								118	133	141	148
% change (constant $)									15.3	7.4	6.8
% of total expenditure								17.3	18.7	19.3	20.0

TABLE 1-6 (cont'd)

Functions	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Equalization Payments												
per capita (current $)	44	47	52	66	102	85	91	102	111	140	149	184
per capita (constant $)	46	46	48	57	76	53	50	52	52	60	56	61
% change (constant $)	20.6	3.1	4.0	19.7	35.6	−29.0	−4.7	5.4	1.4	16.4	−4.7	10.2
% of total expenditure	5.9	5.6	5.4	6.0	7.4	5.2	5.1	5.2	5.2	5.8	5.3	5.7
Total General Purpose Transfers												
per capita (current $)	62	72	75	85	121	118	148	149	143	172	183	218
per capita (constant $)	65	70	69	73	89	74	81	76	67	74	69	73
% change (constant $)	25.1	9.8	−1.0	6.7	24.3	−16.0	11.2	−5.7	−11.0	11.3	−5.2	6.9
% of total expenditure	8.4	8.5	7.8	7.8	8.7	7.3	8.3	7.6	6.6	7.1	6.5	6.7
Social Welfare Transfers												
per capita (current $)	211	251	315	368	451	546	610	672	726	770	895	996
per capita (constant $)	221	247	288	313	333	341	334	340	339	330	338	332
% change (constant $)	18.8	12.8	18.1	10.0	7.8	3.8	−0.5	2.9	0.9	−1.8	3.7	−0.4
% of total expenditure	28.6	29.7	32.8	33.4	32.6	33.6	34.0	34.0	33.7	32.0	31.7	30.8
Education Transfers												
per capita (current $)	41	40	39	42	46	52	60	83	95	100	105	110
per capita (constant $)	43	39	36	36	34	32	33	42	44	43	39	37
% change (constant $)	29.5	−7.3	−8.5	1.0	−1.9	−4.3	2.3	29.9	6.8	−2.0	−7.1	−6.0
% of total expenditure	5.5	4.7	4.1	3.8	3.4	3.2	3.3	4.2	4.4	4.2	3.7	3.4
Total Transfers												
per capita (current $)	180	204	213	241	300	342	418	426	475	519	545	604
per capita (constant $)	188	200	195	206	222	213	229	215	222	222	206	201
% change (constant $)	28.8	7.5	−1.2	6.5	9.4	−2.3	8.8	−4.9	4.1	1.1	−6.2	−1.0
% of total expenditure	24.3	24.1	22.2	21.9	21.7	21.1	23.3	21.6	22.1	21.5	19.3	18.7

TABLE 1-6 (cont'd)

Functions	**1960**	**1961**	**1962**	**1963**	**1964**	**1965**	**1966**	**1967**	**1968**	**1969**	**1970**
Agriculture, Industry, Trade & Tourism											
per capita (current $)	17	21	23	21	25	24	29	37	45	44	55
per capita (constant $)	31	37	39	35	38	36	41	51	57	53	60
% change (constant $)		22.0	7.9	−9.8	13.1	−3.8	15.9	24.6	15.1	−6.6	16.4
% of total expenditure	4.8	5.8	5.9	5.4	6.0	5.6	6.4	7.4	8.0	7.2	8.1
Environment											
per capita (current $)											
per capita (constant $)											
% change (constant $)											
% of total expenditure											
Recreation											
per capita (current $)	1	1	2	2	2	2	3	4	5	4	5
per capita (constant $)	3	3	3	3	3	4	4	6	7	5	5
% change (constant $)		−0.5	16.7	−1.1	2.0	25.2	22.6	41.1	17.4	25.0	11.0
% of total expenditure	0.4	0.4	0.4	0.4	0.4	0.5	0.7	0.9	1.0	0.7	0.7
Transfers to Own Enterprises											
per capita (current $)	9	8	9	8	8	9	8	9	11	11	12
per capita (constant $)	16	14	16	14	12	14	12	12	14	13	13
% change (constant $)		−6.7	11.1	−11.0	−7.8	17.5	−15.0	2.9	14.2	−2.4	1.0
% of total expenditure	2.4	2.3	2.4	2.1	1.0	2.2	1.9	1.8	1.9	1.8	1.7
Servicing of the Public Debt											
per capita (current $)	45	45	46	50	53	55	57	60	64	72	82
per capita (constant $)	80	77	77	81	83	83	82	81	81	86	91
% change (constant $)		−1.7	2.0	7.2	3.6	2.1	0.5	0.8	2.5	7.4	7.2
% of total expenditure	12.4	12.1	11.7	12.5	12.9	12.8	12.7	11.9	11.4	11.8	12.2

TABLE 1-6 (cont'd)

Functions	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Agriculture, Industry, Trade & Tourism												
per capita (current $)	51	54	62	78	137	172	152	152	144	221	301	350
per capita (constant $)	54	53	57	66	102	107	83	77	67	95	114	117
% change (constant $)	−9.7	0.7	7.2	18.3	55.4	7.2	−21.0	−6.3	−11.0	42.0	21.5	3.7
% of total expenditure	6.9	6.4	6.4	7.1	9.9	10.6	8.5	7.7	6.7	9.2	10.7	10.8
Environment												
per capita (current $)	0	1	5	11	12	13	13	14	17	15	14	14
per capita (constant $)	0	1	4	10	9	8	7	7	8	6	5	5
% change (constant $)		144	311.0	129.0	−4.8	−9.1	−7.0	−5.0	18.2	−19.0	−16.0	−9.8
% of total expenditure	0.1	0.1	0.5	1.0	0.9	0.8	0.7	0.7	0.8	0.6	0.5	0.4
Recreation												
per capita (current $)	5	8	10	11	12	15	15	18	20	19	22	26
per capita (constant $)	6	7	9	10	9	10	8	9	9	8	8	9
% change (constant $)	4.1	35.6	22.1	9.3	−5.8	6.5	−10.0	11.0	1.7	−10.0	3.8	2.0
% of total expenditure	0.7	0.9	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8
Transfers to Own Enterprises												
per capita (current $)	12	13	13	16	21	23	24	29	33	41	59	61
per capita (constant $)	13	12	12	14	16	14	13	14	15	17	22	20
% change (constant $)	−1.4	−0.2	0.7	14.3	15.4	−8.4	−6.4	10.5	6.2	15.9	30.1	−8.1
% of total expenditure	1.6	1.5	1.4	1.5	1.6	1.4	1.3	1.4	1.5	1.7	2.1	1.9
Servicing of the Public Debt												
per capita (current $)	58	66	69	79	102	125	128	152	199	243	304	440
per capita (constant $)	61	65	63	67	75	78	70	77	93	104	115	147
% change (constant $)	−32	8.1	−1.5	7.4	13.6	5.3	−8.8	10.7	22.9	12.5	12.0	29.4
% of total expenditure	7.8	7.8	7.2	7.1	7.4	7.7	7.1	7.7	9.3	10.1	10.8	13.6

TABLE 1-6 (cont'd)

Functions	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Miscellaneous Expenditures											
per capita (current $)	18	19	21	23	22	26	27	31	33	40	42
per capita (constant $)	32	33	34	37	35	40	39	42	42	48	47
% change (constant $)		7.3	5.2	10.4	−5.0	17.0	0.2	7.6	3.0	16.8	−1.9
% of total expenditure	4.9	5.3	5.2	5.8	5.4	6.2	6.1	6.1	5.9	6.6	6.3
Total Gross General Expenditure											
per capita (current $)	361	368	394	395	408	424	446	501	562	611	671
per capita (constant $)	648	637	660	647	641	644	642	679	711	731	741
% change (constant $)		0.6	5.7	−0.1	0.9	2.3	1.6	7.7	6.6	4.4	2.8
% of total expenditure	100	100	100	100	100	100	100	100	100	100	100

Functions	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Miscellaneous Expenditures												
per capita (current $)	2	3	0	0	0	0			0	0	0	0
per capita (constant $)	2	3	0	0	0	0			0	0	0	0
% change (constant $)	−95.0	16.7	−99.0	−7.0	−13.0	54.8				22.2	−41.0	65.6
% of total expenditure	0.3	0.3	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0
Total Gross General Expenditure												
per capita (current $)	739	845	959	1101	1381	1623	1792	1975	2151	2408	2823	3236
per capita (constant $)	774	829	878	938	1021	1013	982	999	1006	1032	1067	1080
% change (constant $)	5.9	8.4	7.1	8.0	10.4	0.7	−1.8	2.9	1.7	3.6	4.7	2.5
% of total expenditure	100	100	100	100	100	100	100	100	100	100	100	100

Source: Allan M. Maslove, Michael J. Prince and G. Bruce Doern, *Federal and Provincial Budgeting: Goal Setting, Coordination, Restraint and Reform*, volume 41 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985)

spending declined in all provinces over most of the period. The latter trend reflects the completion in the 1960s of a period of major spending on highways and other social infrastructure.

The share of total spending devoted to economic development activities declined markedly in most provinces between 1960 and the mid-1970s. Subsequently, this relative decline was arrested or moderated. However, it is surprising that the high-profile concern with economic development that has emerged in recent years is not really reflected in spending on this grouping of activities. Such data must be kept in mind when examining the extent of provincial power in this field in comparison with fiscal policy as a whole. Perhaps this absence of evidence of (relatively) more economic development spending suggests that provincial governments may be resorting to non-expenditure instruments (e.g., tax expenditures or Crown corporations) to pursue their goals in this area. The notable exception is Alberta, where for some time it has been a priority of the government to broaden the province's economy in order to make it less dependent on oil and gas sales. In 1982, Alberta spent a greater proportion of its budget on these functions than any other province.

Social development spending increased in relative terms in all provinces between 1960 and the mid-1970s. By the latter date these functions accounted for two-thirds of total spending in most of the provinces. From then until 1982 the general trend was one of moderate reductions in the share devoted to social development functions.

Thus, it can be seen that there is considerable interprovincial variation on the revenue side of the budgets but considerable uniformity (at least at the levels of aggregation that we have discussed) on the expenditure side. The former reflects the differences in the provincial economies: their wealth, income bases, and consequently the amounts they receive in federal transfers (equalization, in particular). The latter is perhaps more surprising given classic arguments regarding the ability of units in federal systems to pursue different goals. However, this option for diversity is tempered by the tendency of citizens in each province to demand similar levels of services in major policy areas and by the system of federal-to-provincial grants and tax transfers, which imposes a degree of uniformity on such major functions as health care, post-secondary education, and social welfare. However, somewhat more diversity occurs within these parameters if one takes a second look at provincial output data (see Appendix B).

In a somewhat more stark way, Tables 1-7 and 1-8 are also significant. They show expenditure and taxation growth rates for the federal government and selected provincial governments for selected periods from 1962 to 1982. These data again show the notably greater growth of spending at the provincial level prior to 1975. They also show that restraint has been exercised in quite significant ways since 1976, much earlier than con-

TABLE 1-7 Expenditure Growth Rates of Government for Selected Intervals, 1962–82

	Average Annual Percent Increase[a]		
	1962–68	1969–75	1976–82
Federal	3.5	6.7	2.0
Alberta	8.4	9.0	8.2
British Columbia	6.7	11.4	3.2
Nova Scotia	8.0	7.7	3.8
Ontario	10.1	9.2	0.1
Quebec	13.0	8.4	3.4

Source: Allan M. Maslove, Michael J. Prince, and G. Bruce Doern, *Federal and Provincial Budgeting: Goal Setting, Coordination, Restraint and Reform*, volume 41 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).

a. Averages are calculated on the basis of the annual percentage change of gross general expenditure in constant dollars (1971), for each government in each of the interval periods.

TABLE 1-8 Taxation Growth Rates of Governments for Selected Intervals, 1969–82

	Average Annual Percent Increase[a]	
	1969–75	1976–82
Federal	8.3	3.0
Alberta	18.0	8.7
British Columbia	10.6	3.9
Nova Scotia	11.3	1.2
Ontario	9.1	0.1
Quebec	10.4	2.2

Source: Allan M. Maslove, Michael J. Prince and G. Bruce Doern, *Federal and Provincial Budgeting: Goal Setting, Coordination, Restraint and Reform*, volume 41 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985). We cannot include the 1962–68 interval because data on total provincial revenue from own sources is not available for the years before 1967.

a. Averages are calculated on the basis of the annual percent change of total revenue from own sources in constant dollars for the provincial governments and the gross general revenue in constant dollars for the federal government.

ventional wisdom would probably hold. Again, this is important to note in the context of the macro debate about deficits and their causes.

Public Sector Employment, Regulation and Public Enterprise

When looking at the growth of public sector employment, a direct indicator of the growth of bureaucracy, one again sees in Table 1-9 that there was considerably greater growth at the provincial level until the mid-1970s.

TABLE 1-9 Total Government Employment

	1960	% LF	1965	% LF	1970	% LF	1975	% LF	1980	% LF	1982	% LF
Labour Force (000s)	6,430	—	7,185	—	8,329	—	9,923	—	11,522	—	11,743	—
Federal												
General[a]	203,013	3.2	211,913	3.0	251,237	3.0	323,902	3.3	335,375	2.9	351,295	3.0
Enterprise	131,118	2.0	129,916	1.8	123,906	1.5	132,046	1.3	157,988	1.4	138,281	1.2
Total	334,131	5.2	341,829	4.8	375,143	4.5	455,948	4.6	493,363	4.3	489,576	4.2
Provincial												
General[b]	139,434	2.2	168,536	2.3	216,475	2.6	288,937	2.9	311,634	2.7	317,407	2.7
Enterprise	63,444	1.0	70,281	1.0	95,520	1.1	134,513	1.4	148,105	1.3	159,260	1.4
Total	202,878	3.2	238,817	3.3	311,995	3.7	423,450	4.3	459,739	4.0	476,667	4.1
Local[c]												
General	149,403	2.3	162,901	2.3	201,425	2.4	247,199	2.5	274,126	2.4	287,103	2.4
Enterprise	23,718	0.4	25,860	0.4	31,976	0.4	39,242	0.4	43,517	0.4	45,577	0.4
Total	173,121	2.7	188,761	2.7	233,401	2.8	286,441	2.9	317,643	2.8	332,680	2.8
Total Government												
General	491,850	7.6	543,350	7.6	669,137	8.0	860,038	8.7	921,135	8.0	955,805	8.1
Enterprise	218,280	3.4	226,057	3.2	251,402	3.0	305,801	3.1	349,610	3.0	343,118	2.9
Total	710,130	11.0	769,407	10.8	920,539	11.0	1,165,839	11.8	1,270,745	11.0	1,298,923	11.0

TABLE 1-9 (cont'd)

Education Sector												
Teaching	160,800	2.5	211,463	2.9	291,624	3.5	313,341	3.1	328,975	2.9	314,201	2.7
Non-teaching[d]	99,696	1.6	131,107	1.8	180,807	2.2	194,271	2.0	203,965	1.8	194,805	1.7
Total	260,496	4.1	342,570	4.7	472,431	5.7	507,612	5.1	532,940	4.7	509,006	4.4
Hospital Sector[e]	183,189	2.8	251,511	3.5	319,826	3.8	339,517	3.4	299,388	2.6	297,175	2.5
Grand Total	1,153,815	17.9	1,363,488	19.0	1,712,796	20.5	2,012,968	20.3	2,103,073	18.3	2,105,124	17.9

Source: Sharon L.Sutherland and G. Bruce Doern, *Bureaucracy in Canada: Control and Reform*, volume 43 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).

a. Excludes federal hospital care workers. They are reflected in the hospital sector totals.

b. Excludes provincial hospital care workers. They are reflected in the hospital sector totals. Also excludes local school teachers from New Brunswick who were included 1975–82. Excludes teachers from CAATs (Ontario) and CEGEPs (Quebec) who were included from 1975–82. Public college teachers who were included in 1975 are excluded from provincial totals. These employees are reflected in the education sector totals. Estimates for Quebec in 1960 and B.C. from 1960–75 are included in the totals.

c. Local general employment totals for 1960 and 1965 are estimated. Local enterprise totals are estimated from 1960–82.

d. Non-teaching personnel are estimated from 1960–82.

e. The 1979–80 hospital statistics were used for the 1980 total. The 1980–81 statistics were used as estimates for the 1982 total.

Federal employment as a percentage of the labour force declined over the entire two decades, and total government employment stayed quite constant. It was 17.9 percent in 1960 and 1982, with a peak of 20.5 percent in 1970. These data do not correspond to the rampant bureaucratic growth thesis, where bureaucracy is measured by the number of employees. In our later discussion of the Sutherland and Doern study of the administrative state these data are related to the fundamental ambivalence that the political system has about "its servants."

The growth of regulation is fraught with greater measurement problems than taxes or spending. A count of statutes and delegated regulations passed each year shows voluminous increases in comparison with the 1950s. But these data do not assess either the costs or the benefits of regulation that usually show up on private budgets. Compliance costs for private firms are said to be about fifteen times the direct costs that show up on government budgets (that is, the costs of the regulatory agency itself and its employees). John L. Howard and W.T. Stanbury have estimated that in 1980 about 29 percent of Gross Domestic Product at factor cost was subject to some form of regulation with respect to prices, entry, and/or output.[20] Some sectors of the economy are regulated more intensely than others. The benefits of regulation are even more difficult to assess, especially as they are not easily quantified. This is all the more true when one includes so-called social regulation, regulation that is intended to improve health, safety, and fairness. The relationship between regulatory data and the politics of economic policy is perhaps the most elusive of all, in that the significant distinctions between economic and social regulation do not emerge. We shall later link these data to the Schultz and Alexandroff study and to the evolution of environmental policy.

Trends in the growth of wholly owned Crown corporations also need to be interpreted with care.[21] There are about 233 provincial Crown corporations (excluding subsidiaries) and about 464 federal Crown corporations (including subsidiaries). Table 1-10 gives data on employment patterns. These data show a significant decline in the proportion of federal enterprise employees and an increase in provincial employees as a percentage of total public sector employment. Over the whole period, there has been a decline in total percentage of enterprise employees. Crown corporations produce about 10 percent of GNP, an increase of about 2 percentage points since 1970. About half of the provincial Crown corporations have been created since 1970, but only about 11 percent of present total assets have been created since 1970. Among federal Crown corporations, the greatest rate of asset growth in the 1970s was in the field of financial Crown corporations (e.g., Central Mortgage and Housing Corporation, Farm Credit Corporation, Federal Business Development Bank, and the Export Development Corporation).

TABLE 1-10 Level of Public Sector Employment/ Total Public Sector Employment

Level	1960	1965	1970	1975	1980	1982
			(percent)			
Federal general	17.6	15.5	14.7	16.1	15.9	16.7
Federal enterprise	11.4	9.5	7.2	6.6	7.5	6.6
Total	29.0	25.0	21.9	22.7	23.4	23.3
Provincial general	12.1	12.4	12.6	14.4	14.8	15.1
Provincial enterprise	5.5	5.2	5.6	6.7	7.0	7.6
Total	17.6	17.6	18.2	21.1	21.8	22.7
Local general	12.9	11.9	11.8	12.3	13.0	13.6
Local enterprise	2.1	1.9	1.9	2.0	2.1	2.2
Total	15.0	13.8	13.6	14.3	15.1	15.8
Total government						
General	42.6	39.9	39.1	42.7	43.7	45.4
Enterprise	18.9	16.6	14.7	15.2	16.6	16.3
Total	61.7	56.5	53.8	57.9	60.3	61.7
Education sector						
Teaching	13.9	15.5	17.0	15.6	15.6	14.9
Non-teaching	8.6	9.6	10.6	9.7	9.7	9.3
Total	22.5	25.1	27.6	25.3	25.3	24.2
Hospital sector	15.8	18.4	18.7	16.9	14.3	14.1

Source: Sharon L. Sutherland and G. Bruce Doern, *Bureaucracy in Canada: Control and Reform,* volume 43 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).

The growth of the financial intermediary Crown agencies is itself related to the emergent use of off-budget policy instruments, namely government loans and loan guarantees. The Economic Council estimates that the value of federal and provincial loans and investments, loan guarantees and credit insurance provided to the private sector amounted to 18.5 percent of GNP in 1982.

Another manifestation of government equity ownership, not always reflected in conventional Crown corporation data, is the growing use of mixed enterprise and equity holding via the management of government-controlled pension or investment funds. In volume 2 of the Commission studies, Elford and Stanbury estimate that there were over three hundred mixed enterprises in Canada in 1983.[22] Major funds such as the Caisse de dépôt in Quebec and the Alberta Heritage Savings Trust Fund have multibillion-dollar equity portfolios.

A mere cataloguing of these dimensions of the growth of government is obviously not the only issue. The array of instruments can both encourage growth and restrain it according to various views of what

economic and social development means. The spectrum and configuration of instruments, though produced by the interplay of institutions surveyed above, in turn change the institutions which established or demanded them. They produce sets of valued relationships which interests sometimes characterize in the shorthand language of the "tax system" and the "regulatory system." They remind us that the state is not just the government in abstract form but is also an array of valued relations. They yield stable relationships which are simultaneously valuable and a threat to future adaptability.

The pressures and circumstances which lead to individual changes in each of these areas (a new subsidy for group A, a tax break for group B, a new regulation or deregulation to assist group C, a Crown corporation to help region D) are not just the product of general views or preferences about the growth of government, about degrees of intervention, or about theories of fiscal and monetary policy. They also reflect the dynamic interplay of ideas and values, of pressures and responses, as political power is exercised by interests in all their basic configurations (public-private sector, intergovernmental, citizen-state, international, and electoral and partisan) and as the basic agenda of priorities shifts at the national and international levels and within provincial settings. Politics is both purposeful and calculating, and it is undeniably multidimensional. So, consequently, is the role of the state in the economy, and so is the political nature of economic policy formulation. Thus far, we have dealt only with the broad aggregate dimensions of our threefold approach. We need now to explore, separately and in greater depth, each of the three components, namely ideas and goals, interests and power, and structure and processes.

The Evolution of Goals and Ideas

Over the past three decades as a whole there has been major broadening of the goals of economic policy and thus of the ideas inherently defined to be a part of the political meaning of economic development. Since the mid-1970s there has been evidence of an attempt to restrict if not reduce the normative content of the economic policy menu. Each of the studies, as well as related literature, testifies to these trends in the political meaning of economic policy. They are a part of each of the policy fields covered here and of the policy instruments reviewed.

Macro-policy Goals and Ideas

The four basic goals of macroeconomic policy, stated in classic Keynesian terms, are economic growth, full employment, reasonable price stability, and balance of payments equilibrium. The political and economic task of balancing and/or dealing with these four goals is difficult

enough. As revealed in budget speeches, however, Canada's elected political leaders have found it necessary to broaden the goals still further to include overall concerns for regional economic disparities and for the overall distribution of income between rich and poor.[23]

While the goals of macroeconomic policy have broadened over the entire period and thus have made the policy trade-offs more difficult, both David Wolfe's paper on deficits and the Maslove, Prince and Doern study of budgeting (volume 41 of the Commission studies) stress that there have been shifts among the goals within particular blocks of time within the period. In other words, while it has been politically necessary to make formal statements that express a broad range of goals, choices have been made in practice. As exercises in political choice, it is essential that these periodic rankings of goals are clearly understood.

In the post–World War II era, Keynesian macro-policy, as the Wolfe and Muszynski papers in this volume show, was in a fundamental political sense an idea that helped justify a degree of government intervention that had for the most part been ideologically illegitimate in previous decades. Its underlying premise, cast in a period of time when the 1930s Depression and World War II were seared on the collective memory, was that government, in the interests of both growth and a more stable economy, could play an active macro role as economic "manager."

For the labour movement and for others who had borne the brunt of the Depression's savagery, the Keynesian approach included a commitment to early forms of the social welfare state and to a form of employment goal. In the latter context, however, as Muszynski's paper on labour market policy shows, there has never been a categorical, politically expressed commitment to full employment. One came closest to it in the early Pearson years but even then the goal was a muted one. In the mid- to late 1960s, the regional and overall redistributive goals also found greater expression and practice. These goals could be said to have extended even into the early 1970s, including the extent to which they were part of the changes made in unemployment insurance provisions in 1971–72.

As the 1970s progressed, however, the understanding of how these various goals interrelated began to change. The dual experience of rising unemployment and rising inflation fundamentally challenged traditional views both of what was possible and of how to manage the economy. The OPEC–induced oil price shocks also greatly complicated the framework for economic policy making, not only in Canada but in the world context.[24]

Sometimes separate from and sometimes interwoven with this changing normative menu has been a lack of consensus within the chief professional knowledge group, namely economists. This professional debate (founded on a mixture of cumulative research and political belief) and the way in which it has been publicly propagated cannot be sepa-

rated from the changes that have occurred in the economics knowledge industry.[25] At one level the lack of consensus reflects the emergence of the monetarist critique of Keynesianism and of the role of government in the economy, in much the same way that Keynesianism itself was part of a larger liberal view in the post–World War II era. Monetarist ideas certainly entered the macro realm in the form of the Bank of Canada's commitment to "gradualism" in the growth of the money supply and in the commitment to control spending. Yet it was not a total victory for one set of ideas over another. This is all the more true when one adds the two major instances of the use of incomes policy, in 1975 and 1982, the latter being neither Keynesian nor monetarist in its basic intellectual origin.

In addition, the professional economics debate on macro-policy was influenced by evolving broader research findings on the relationship between inflation and employment. This work increasingly argued that there was no long-term trade-off and that the natural rate of unemployment was increasing, in some cases exacerbated by social legislation and demographic factors. Moreover, the world economy had changed in major ways, including the speed with which capital could move across national boundaries. This overall line of argument held that traditional views about the degree to which macro-policy makers could manoeuvre were now out of date.[26]

The debate must also be set in the context of the economics knowledge industry in Canada and in its international network. By the mid-1980s Canada was being "informed" by a cacophony of competing voices in economic forecasting. Relative to the 1960s, there are now several economic advisory bodies and think tanks.[27] In one sense this is a vast improvement over the past, but in another sense it produces a numbing parade of forecasts and prognostications, just at the time when the world seems to be at its least forecastable state.

While a clear new consensus did not emerge, the goal content of macro-policy and the way the goals were expressed did change. Beginning especially with the 1976 federal budget speech, adopted after the imposition of the 1975 wage and price controls program, federal policy goals were cast increasingly in terms of the need to withdraw from the Keynesian tradition of fine-tuning and demand management so as to address the more medium-term or underlying structural problems of the economy. External shocks and events, such as the oil crises of 1973 and 1979, were increasingly treated in budget speeches as "givens" for which the government could not be held politically responsible. In part, such shocks were in fact beyond the control of federal policy makers.[28]

The federal government also withdrew from the notion of direct job creation, in part because of the changing understanding of the economy cited above, but also in part, as Muszynski's paper stresses, from acceptance of the argument, advanced as the 1970s evolved, that public sector jobs were basically "unproductive." In addition, the fact that a

high proportion of new labour market entrants and job seekers were women led to a view in some quarters that "real" unemployment was lower than was reflected in statistics, since it often involved second income earners in a family and thus was not as critical an indicator of human "hardship." This was strongly disputed by women's groups and by many other interests as well.

The commitment in 1976 (and, as the data shown earlier indicate, the subsequent practice) to keep federal expenditure growth rates to within the "trend line" growth rate of the GNP also meant that there was inherently less room to practise countercyclical spending policy of a classic Keynesian kind. When one adds to this the fact that monetarism was practised with considerable vigour in the latter years of the 1970s and that per capita constant dollar spending on key structural items such as manpower training did not increase during these years despite higher unemployment, it is not difficult to conclude that the commitment to the employment goal declined.[29] All or most of the measures were challenged by other bodies of political opinion; but in the ebb and flow of ideas that are adopted by government, the latter 1970s showed the relative ascendancy of the combined conservative and economics profession critique of earlier macro-policy.

The preoccupation in the latter half of the 1970s was with inflation, but the discussion associated with the resolution of high inflation rates was politically connected with the ideas on employment summarized above. Even here, however, macro-policy was embedded in, and partially reflected by, the diverse goals that accompany Canadian economic policy. The 1975 wage and price controls program was overwhelmingly concerned with bringing down Canada's wage rate increases so as to be more in line with our main competitor, the United States. As an anti-inflation measure, it was primarily aimed at wage control.[30] Compared with prices, wages are inherently easier to control, since there is a manageable number of wage contracts to police. The price control component was added to the policy package largely to convey some sense of equity and fairness as between labour and business. Earlier exercises that had aimed at obtaining labour's support for voluntary restraint had run into strong criticism; a controls program which excluded prices was considered unfair, especially by labour unions.

Resource Policy Goals and Ideas

On an equally broad scale, consider the evolution of resource policy goals and ideas. These can be looked at in three broad time periods.[31] The first might simply be called historical images, while the second and third deal with the 1950s and 1960s, and the 1970s and 1980s, respectively.

The historical images of resources are an amalgam of the country's pre-industrial past. They represent a kaleidoscope of physical and geo-

graphical portraits of the country and its continental expanse, as well as of key policy initiatives and analytical interpretations of our economic and political history. At one level, these images convey the simple value and goal of being resource sellers, first to the British and then to the U.S. "empires." This has led, as John McDougall's paper, third in this volume, shows, to the staples view of Canadian economic development, in which successive stages of development are founded on the exploitation of a primary staple resource, from fish and fur, to wheat and forest, to mineral and energy resources. The classic "hewers of wood and drawers of water" self-image was one that created ambivalence, since on the one hand the selling of resources created wealth, while on the other hand, it simultaneously implied a sense of underdevelopment and dependence.

Layered over and interwoven with the "dependent seller" image were the often conflicting goals of nationalism and regionalism, albeit cloaked in a different rhetorical language than that used today. In the first three decades of this century, resource policy was increasingly debated in the context of Central Canada versus Western and Atlantic Canada. This occurred even though very little resource trade was actually interregional. Part of the alienation of the Prairie provinces centred on the fact that the federal government had constitutional control over resources in the West until 1930. The alienation was, however, more broadly rooted in several interconnected grievances that arose out of the legacy of the National Policy, the volatility of world commodity markets, Central Canadian control of marketing, transportation, and finance, and the gradual shift out of British and into U.S. markets and spheres of influence.

Regionalism was an important idea not only in a national context but also within provinces. Resource developments often involved pockets of hinterland-based development, thus giving rise to relatively visible but isolated single-resource and single-company towns. These developments brought with them provincial obligations to build basic transportation and community infrastructures.

While the underlying historical goals continued in the post–World War II era, there was a change of emphasis regarding resource policy. In general it is fair to say that the goals of resource policy during this period were those of growth and consolidation, stable marketing, and continentalism. The war had stimulated a broad range of resource production in Canada, and this trend continued during the Cold War and the Korean conflict. Canadians found great profit in opening up their mines, forests, and petroleum reserves to the markets of the world. There were periodic concerns and political criticism about the degree of dependence on exports, about the adequacy of reserves, and about the foreign ownership of industry, but relative to what was to come later the level of political conflict was quite moderate.

This portrait of consolidation is not wholly accurate for other resource areas though. If oil and gas were in the ascendancy, this was at the

expense of coal. Thus, the policy goals reflected in the establishment of the Cape Breton Development Corporation (DEVCO) included the winding down of the coal industry and the search for alternative employment opportunities. Special problems arose in the uranium industry which led to a federal stockpiling program, in part to preserve the Elliot Lake area and in part for continental strategic reasons.

Somewhat in between the extremes of oil and coal were other developments that were largely growth oriented. These included the expansion of provincial hydros, including the nationalization of hydro in Quebec and British Columbia, the more aggressive and successful pursuit of international wheat and grain sales via the Canadian Wheat Board, and the expansion of forestry and mining. There existed through much of this period a fairly robust faith in Canada's resource endowment. This buoyancy was reflected in the Roads to Resources Program in the late 1950s, in the prevailing belief that Canada had several hundred years' supply of oil and gas, and in the various visions held about the Arctic and the northern territories and their resource endowments.

There were certainly periodic reminders of the downside of resource optimism. Thus, more than one government faced the realities of what one author called "forced growth," when projects such as Manitoba's Churchill Forest Products and Nova Scotia's early heavy water plants faced unresolvable problems.[32]

Since 1970, the goals of resource policy have broadened still further. While most features of the earlier agenda continued, two changes in particular were of special importance. One was increased determination by provincial governments to manage their resources more actively to achieve long-sought diversification of their provincial economies. The other was the emergence of environmental goals, goals that extended far beyond the resource sector into all phases of production. As the international terms of trade brought an increased value to these resources in the 1970s, these concurrent factors brought the federal government into a wider involvement as well. Provincial diversification and resource-control goals were numerous and varied. In part, they reflected concerns about how to obtain more employment or value-added components. In part, they reflected concerns about preserving and enhancing political power, both for its own sake and in order to have greater influence on events that affected core provincial resource endowments.[33]

Environmental Policy Goals and Ideas

The environmental movement, including related concerns for occupational health and for resource and energy conservation, brought with it a basic challenge to the very definition of what economic development means. It posits that there is a need to "move away from the blind assumption that environmental protection and full employment are con-

flicting goals and that one can only be gained at the expense of the other."[34]

Environment Canada's presentation to the Commission defined the environment to include:

- a life-sustaining and productive source of resources;
- the ultimate receptor of all products and wastes generated by human activities;
- a modifier of human activities; and
- a heritage to be passed on to future generations.

It went on to stress that this definition included "both market transactions which are reflected in GNP measurements of economic growth, as well as 'non-monetized' activities which reflect unpriced contributions to the quality of life." There is, accordingly, an interdependence between society, the economy, and the environment on both a national and international basis which requires that attention be paid to the goal of a sustainable form of development.[35]

Environmentalists have put on the agenda a set of goals which inherently call for a new public philosophy. This does not necessarily have the coherence or familiarity of existing ideologies such as liberalism, socialism or conservatism, which inform and partially guide public debate, but it has a similar breadth. It implies a change of attitudes and values, the pursuit of policies that will demonstrably regenerate ecological systems, and a preventative approach to decision making. It seeks to build into decision processes an a priori concern for environmental values. Viewed broadly, this means changes in decision processes affecting the workplace, the regulation and approval of large-scale projects, and the introduction of new products into the marketplace.

Social Policy Goals and Ideas

Other studies in this segment of the Commission's research also show the broadening content of goals. James Rice's paper on income security programs, which is fourth in this volume, shows the historical transformation of ideas by which the pre–World War II focus on "relief," based on ideas of individualism, capitalism, and charity, was gradually supplanted by the new language of normative expression; this development was partly due to the influence of the broader humanitarian and collectivist ideas of the Beveridge Report in the United Kingdom and to Keynesian economics. As stressed in our review of macro-policy goals, the Keynesian paradigm allowed social policy goals to be expressed, at least in part, as being consonant with the goals of stability and the promotion of growth. Rice's analysis also shows that while underlying concerns for equity obviously were a part of the push for social reform, full-blown discussions of explicitly redistributive goals were not articula-

ted until the late 1960s, when studies showed that even the working poor, as distinct from unemployed or other disadvantaged Canadians, functioned well below the poverty line.

Other analysis of the evolution of social policy shows that concerns for equality were present in the 1960s in other realms of social policy. The debate over medicare in the early and mid-1960s was certainly cast in terms of increased equality for Canadians who could not afford private insurance coverage. The expansion of federal and provincial funding for higher education was advocated on the grounds of increasing the "accessibility" of qualified low-income Canadians to educational opportunities. Similarly, in the late 1960s, the immediate post-Carter Commission debate on tax reform initially included the commission's concern for a more egalitarian tax system in which, as the commission put it, "a dollar is a dollar" and should be taxed according to one's ability to pay.

However, the complexity of the normative agenda for social policy could not be encompassed only by arguments for greater equality per se. As Rice points out, the initial political ideas helped produce important programs, but the programs in turn produced a new round of normative labelling which reflected further changes in the demographics and characteristics of the client groups who were the recipients of social program benefits. Thus, in the mid- and late 1970s, social policy goals tended to be expressed as well in terms of the rights of women; and also, to a considerable extent, in terms of the rights of native Canadians, the young, and the aged. These rights-oriented goals were often summarized under the rubric of the need to "target" social spending.[36] While expressed as group rights, they also overlapped with concerns that were genuinely redistributive, e.g., the needs of single women with children and the needs of native Canadians. Targeting brought with it the language of efficiency in that it allowed for the possibility of redirecting or concentrating scarce social dollars on some groups that were not, individually at least, numerically large. In contrast to the broad-scale programs of the 1960s, relatively small amounts of money could be selectively targeted on groups in need.

The rights-oriented thrust implied above cannot of course be separated from the larger debate about the Charter of Rights and Freedoms, which culminated in 1982 in the Charter's entrenchment in the Constitution.[37] At the same time, however, it yielded by the mid-1980s an extremely complex set of goals that were both reflected in and clouded by the debate over universality. It is important to stress that no one initially set out to promote the concept of universality (the concept that social programs are due to Canadians as a virtual right of citizenship). In fact, the term "universality" was invented retroactively to describe one of the normative characteristics of Canadian social policy that characterized some of its programs (medicare, old age security, and family allowances). Moreover, the rights of citizenship implied by the concept

of universality are not the same notion of rights that has accompanied the targeting phenomenon described above. As we saw, the concept of targeting was embroidered with genuine concerns for redistribution, but not the kind of across-the-board redistribution implied by the earlier notions of an attack on "poverty." As we show later, the social policy goal of promoting "stability" was not removed from the agenda either. If anything, the debate in the 1980s raises anew the degree to which social policy writ large is a precondition of economic development.

In a somewhat different but obviously connected vein, volume 43, the Sutherland and Doern study of the evolution of federal and provincial bureaucracies (in short, of the Canadian administrative state) also shows the broadening of goals and ideas. This study draws attention to the degree to which public service bureaucracies[38] have become the "object" of public policy and hence the repository of various kinds of social and economic experimentation. Thus, from the mid-1960s on, the introduction of collective bargaining, language policy, human rights legislation, affirmative action policies and, later, legislation concerning rights both to privacy and to freedom of information reflected the broadening agenda. In the late 1970s and early 1980s the bureaucracy was also targeted for retrenchment goals which narrowed collective bargaining rights and imposed wage controls. The Sutherland and Doern study also points to the existence of a significant "control bureaucracy" composed of variously defined "rights auditors," whose functioning has significantly transformed the nature of the bureaucracy as a delivery arm of regular government programs.

Last, but certainly not least, one can point to the patterns of change examined by Schultz and Alexandroff in Volume 42, their study of evolution of federal and provincial economic regulation in three policy fields: airlines, telecommunications and securities.[39] The typology used by Schultz and Alexandroff, namely the transformation of regulation from a policing to a planning mode, is itself rooted in the expansion of goals within each policy field or industrial sector, as well as across the three sectors. Thus, to traditional concerns for ensuring the basic efficiency of the markets, including concerns over monopoly power, were added concerns for basic stability, regionalism, and national integration.

Goals, Ideas and Public Opinion

Before proceeding to the second dimension of the politics of economic policy, it is useful to bridge it and the above discussion of goals and ideas with a brief look at public opinion. In this regard, Richard Johnston's comprehensive study (volume 35 of the Commission studies), using recent cumulative Decima data for the 1980s, is especially useful.[40] The role of polling is itself an important feature of policy formulation and it is used increasingly in budget formulation as well. Our brief reference here

to some of Johnston's key findings is intended to explore the extent to which public opinion reflects goals that have been discussed above, as well as looking at basic views about institutions such as the bureaucracy. Johnston's overall conclusions on the opinions of Canadians regarding inflation versus unemployment, deficits, income security, and changes in expenditure versus changes in taxation are presented summarily below, but the reader should consult the full study to appreciate the analytical subtleties in interpreting such data.

Johnston relates data on Canadians' views of inflation versus unemployment and finds considerable volatility in the shifts in opinion, that is, the relative aversion expressed through time about these two macro phenomena. These are related in his analysis to various theories of the existence of a political business cycle linked to the rhythm of elections and to the claimed short-term memories of voters. Johnston concludes that:

> The public seems highly volatile in its aversions. Some evidence suggests that these aversions are more responsive to variation in unemployment than to variation in inflation. But there is also ample evidence for their response to inflation itself. And the whole system seems tilted against inflation. In sum, . . . Canadians do not exhibit a standing bias against unemployment. Similarly, the volatility is not consistent with . . . emphasis on class-related aversions. Instead, the data suggest a satisficing model. . . . In their attitudes to unemployment and inflation as targets, then, Canadians are an economist's version of le bourgeois gentilhomme: Keynesians without realizing it.[41]

This conclusion must be related to the claimed decline in Keynesian economics, especially from 1976 on, and to the role of rhetorical, partly media-based debate which may still couch all debate on the economy in terms of these basic goals. Partisan politics reflected and reinforced through the media continued to play the classic macro game, while budgetary professionals and business interests in particular articulated a different view. As in all such evidence from polling data, one must keep in mind what questions were being posed to those interviewed. This is why other aspects of Johnston's conclusions must be looked at briefly as well.

With respect to deficits, Johnston stresses that the data do not show us what theory of the deficit is at work in Canadians' minds. He concludes:

> When respondents are asked whether the deficit should be reduced by tax increases or by service cuts, the majority favor service cuts. But when specific cuts are proposed, respondents typically oppose them. The strongest opposition was often reserved for the largest spending programs.[42]

Johnston's analysis suggests that since politicians are quite capable of politicizing the debate about macro targets, Canadians are quite capable of responding in kind. There is, of course, a classic "chicken and egg"

phenomenon as to who is leading whom. Politicians have numerous antennae into public and elite opinion, and it is obviously a moot point as to where the causal "engine" is. As in so many dimensions of politics, one is dealing with relationships of a multifaceted nature. Johnston goes on to conclude, wisely in my view, that "Canadians are not willfully myopic. Their views on national policy are not simple projections from their personal or household fortunes."[43]

The Johnston study also probes the issue of whether voters demand that governments use mercantalist policies to try to stabilize or increase employment in particular sectors even if such policies reduce the incomes of the average Canadian. In effect, he conducts a partial test of the Mancur Olson proposition about economic decline.[44] His study concludes:

> Canadians are pre-eminently concerned with job creation and protection. This preoccupation is not focussed simply on the size of the income the job yields. Rather, the underlying concern is with security: perhaps of income but arguably of the occupational culture as well. . . .
>
> In their basic preoccupations if not always in their policy prescriptions, Canadians seem to fit Olson's model squarely.[45]

Unlike Olson, however, Johnston properly goes on to raise an important issue about such a finding. He observes that "Olson assumes such conservatism as a given, but seems not to respect the motive. Survey respondents may recognize that, for all that the market rests on individualistic presuppositions, the summary operation of the market economy does not always respect the individual persons within it."[46]

As a concluding point, Johnston raises a related issue which we emphasize in the concluding part of this chapter after other kinds of political evidence have been marshalled. He observes:

> As a worker, the individual may feel trapped by a production side version of the tyranny of small decisions. The traditional argument that capital investment requires a stable environment may find a parallel in individuals' investment in human capital. Canadians, like citizens of other democracies, may thus look not just to the maximization of income but to its stabilization as well.[47]

This kind of conclusion must also eventually be connected to Johnston's conclusions about public opinion towards general governing instruments such as Crown corporations and regulation. His data shows that there is no widespread antipathy to the use of either of these instruments, certainly not at the level that the rhetoric of some interests would indicate. Here, as in the case of spending, one can detect some resentment against regulation in general, but when specific kinds of regulation are mentioned there is usually support. Environmental regulation in particular is highly supported. Data also suggest that bureaucracy in the

abstract is opposed and that the idea of making cuts in bureaucratic overhead elicits widespread support.

In summary, then, if one looks only at ideas and goals, that is, at the first quintessentially political dimension of economic policy, there can be little doubt that over the entire period covered there has been an expansion of goals both within and across the component policy fields and instruments surveyed above. When looked at alone, they suggest strongly that the political meaning of economic development goes well beyond the bounds of market efficiency. For some interests in Canadian politics, this is democratically satisfying. For others, this condition is viewed as "the problem." While such ideas have a partial independent force of their own, for reasons already outlined they obviously do not exist in isolation. They have to be related to the shifting configuration of public-private and intergovernmental interests, and hence to the actual exercise of power which such an array of goals may or may not reflect: in short, to the second dimension of the politics of economic policy on which we focus, namely the exercise of power.

Interests and the Exercise of Political Power

Changes in the configurations of political power rarely leap out in clear quantitative form. Some changes are blunt, but many are more subtle and cumulative. Interpreting such changes, moreover, is always debatable and contentious. To examine such changes in relation to economic policy, one needs to be aware of the myths and realities that attend such debates, and one needs to stress some key changes in the general structure of interests and interest groups. On this basis, one can then discuss some of the interpretations of the shifts in power advanced by the authors of the studies reviewed here.

Evidence, Myths and Realities in Gauging Shifts in Power

The experience since the mid-1960s suggests that many myths accompany the views of different interests as they take part in the economic policy formulation process. The views are mythological in the dual sense of all mythology in that they contain part truth and part fiction. Three examples will suffice. First, business interests often tend to regard government incentives conferred through the tax system as being non-interventionist. This has been evident in several major economic and policy debates.[48] In the two-tier exercise in industrial policy consultations during the mid-1970s, the business sector in the 23 task forces advocated a veritable wish list of tax breaks which, if adopted, would have cut federal revenues in half. In the energy debate, private interests have strongly preferred tax incentives to grants; and as we shall see below, in the debate on deficits, business interests prefer a cut in spend-

ing rather than increased taxes. While tax breaks are in some respects less interventionist than other policy tools, they obviously have effects in terms of lost revenue and hence may be viewed in less benign terms by other taxpayers who must make up the revenue slack.

A second example concerns Crown corporations. Some interests that want Crown corporations established reassure their fellow Canadians that such enterprises act in the public interest. This may be partly true, but there is also evidence that Crown corporations can be self-serving and that they can be inefficient relative to the use of other instruments, since their longevity establishes all of the normal bureaucratic habits to which large organizations often succumb.[49]

In a similar way, myths attend the separation of economic policy into its macro and micro realms. As we saw above, macroeconomic policy embraces the overall policies of growth and stabilization, which in terms of key political events are most (but not exclusively) associated with the budget speech given by the minister of finance. Microeconomic policy is central to debates about industrial policy and is less easily associated with any one political decision-making occasion or one centre of political and ministerial power. Indeed, it involves numerous decisions in many forums of decision making. There is still a basis for thinking about policy in these two contexts, but the experience since the mid-1960s also suggests the many ways in which this is a partially false dichotomy. For example, the basic notion of macro-policy is that micro-policy is somehow coordinated within it and that the main elements of macro-policy (fiscal and monetary) are also moving in the same direction. Macro-policy implies that one or two big overall decisions are being taken, into which numerous smaller ones will fit. But what happens if a few of the micro (smaller) decisions are of larger magnitude that the macro ones? The politics of economic policy, as we show below, suggests strongly the partial demise of these elegant distinctions between macro-policy and micro-policy. The role of macro-policy does not disappear, but it certainly loses some of whatever clarity it once possessed.

Economic policy making is obviously not immune from changes in the relative influence of key interest groups and interests. These shifts in influence do not impact in tidy ways on every macro federal budget or on each provision within any given budget. They do, however, create an underlying climate of views and pressures that continue to affect the conduct of macro-policy and the way in which different interests view the adequacy ofsuch policy. These were articulated by the interests that appeared before the Commission during its hearings. A major overall underlying difference of view continues to characterize the key macro issue of employment and the degree of political commitment to whatever it is that a modern "full-employment" goal means. Both business and labour support the classic goal of reducing unemployment to more "acceptable" levels, but what is acceptable varies considerably. Busi-

ness interests need a flexible, mobile, and disciplined work force. Beyond some seasonal or structurally defined minimum (which no one can every quite agree on), business needs some level of unemployment to create these labour market conditions. Conversely, labour interests wish to establish employment per se, including secure and quality employment at fair wages. Economically, there may in the long run be no trade-off between employment and inflation; but politically, in the short run, there always is to some degree. Relative shifts in influence between business and labour interests, as well as other interests, help determine at what point the trade-off is made.

Shifts in the influence and power of business and labour are thus a vital part of the political equation. As our stocktaking exercise showed earlier, however, business and labour are not monolithic interests and they interact in complex ways with federal and provincial governments, both as interest groups and, equally important, as large individual companies or as particular labour unions. As we have noted, some observers of the last decade, even though they concede the normative importance of the right to lobby, characterize the entire political process as being dominated by "rent-seeking" interest-group politics, in which more and more real resources are consumed in income shuffling rather than in creating new wealth and growth.[50]

All of the above suggests the need for caution in interpreting shifts in power, but it does not absolve one from the need to comment on such shifts when they are discernible. In this regard, it is important to note changes in the 1960s versus the 1970s. Part of the broadening of goals and content in economic policy in the 1960s was due to the fact that labour and other public-interest groups had greater influence than in the 1970s, especially in the last half of the 1970s. This was reflected in direct political pressure and in the political party system. As David Wolfe's paper shows, the Liberal party was controlled for most of the 1960s and into the early 1970s more by its left-of-centre element than its right-of-centre. The New Democratic Party (NDP) also had more political leverage: indirectly because of a growing labour movement, and directly because of bouts of minority government.

In the 1970s and extending into the 1980s, shifts in influence occurred along these general lines. The structure of business interests was altered with the establishment of two new lobby groups, the Business Council on National Issues (BCNI) and the Canadian Federation of Independent Business (CFIB).[51] The BCNI was established precisely at a time, just after the imposition of wage and price controls, when key business leaders felt that macro-policy was becoming less and less appropriate. At the other end of the corporate scale, small business activists had even earlier formed the CFIB, partly out of dissatisfaction with the capacities of the then existing big business lobby groups, but also out of a deeply ingrained sense that excessive governmental intervention and

bureaucracy were harming their interests. While these two groups had some distinct interests, along with established business groups such as the Canadian Manufacturers' Association and the Canadian Chamber of Commerce, the net effect was that the pressure and ideas of the business community were greatly increased in comparison with the 1960s.

Correspondingly, the relative influence of labour, and its more instinctive preference for the primacy of employment goals, declined in the 1970s. In part this was due to a slower growth rate in its own membership and to the loss of marginal political leverage by the federal NDP from 1974 on. Organized labour did experience a growth of membership in public service unions, but this did not readily translate into increased influence, since these unions were easily linked, in politically adverse ways, to a small handful of visible public service strikes and to the emerging critique of the growth of bureaucracy.[52] The wage and price controls program also weakened union influence, not only because wages were controlled, but also because, in its midst, the labour movement was engaged in a debate about tripartism. Only briefly did it flirt publicly with the concept, but in its own counsels there was serious debate and considerable division as to how to forge its relationship with government over the long term.

Since power is always relative, the power of business is not a one-dimensional thing. Thus, alongside this first configuration one must place the role of other interests. Consider, for example, the role of agricultural producer interests.[53] In part because they were not viewed in the context of the macro-political and economic arena, agricultural interests were able to secure a string of new marketing boards in various product sectors to stabilize and enhance producer incomes. They operated in their own micro-political arena with considerable success. By contrast, one couldnot say the same thing about the relative power of the fishing industry.

In the realm of intergovernmental power (which, as this paper stresses throughout, is never wholly distinct from the public-private power), there were also important changes. First, at the level of partisan politics, the 1970s were characterized by the total elimination of the Liberal party from provincial seats of power. The federal Liberals faced a growing sea of provincial governments in Opposition party hands. As we shall see below, this escalation of the partisan dimension was of no small importance in influencing the overall posture taken by the Liberals. In an overall budgeting and fiscal policy sense, the Maslove, Prince and Doern study of budgeting shows that since the mid-1960s provincial governments have practised marginal forms of provincial fiscal countercyclical policy.[54] These actions were sometimes countercyclical in concert with Ottawa and were sometimes pursued explicitly to counteract the adverse effects of federal fiscal or other policies. The Commission's economics research shows that these provincial quasi-Keynesian excursions have

no basic harmful economic effects.[55] Indeed, to view them as politically harmful would be to imply in a sense that federalism should not exist. Nonetheless, it does suggest some overall marginal increase in the power of the provinces over the entire period.

In the period covered here, namely since the mid-1960s, the provinces took other actions which were intended to increase political power and which, in some specific areas, did have the effect of doing so. These were not in what we would traditionally call macro-policy areas; they were in areas of micro-policy. Thus, Crown corporations and mixed investment enterprises were established, especially in the energy and resource fields.[56] However, it is a mistake to view these actions as an undifferentiated trend toward so-called province building.[57] Our identification of this realm of power as intergovernmental power rather than federal-provincial power is important in several respects.

First, the shifts in power between Ottawa and the provinces are not uniform. There are bilateral relationships of power as well as multilateral relations. The "have not" provinces are still politically weak in the overall scheme of things. Second, in some sectors the disputes over power are as much interprovincial as they are federal-provincial. For example, the Alberta-Ontario political equation in energy politics (conducted moreover in the confines of the same political party) was almost as important as the Alberta-Ottawa one. Third, even within the same policy field such as energy, the characterization of the exercise of power is different at different times. Thus, in 1973–74 and 1979–80, energy relations between Alberta and the federal government were extremely conflict ridden, but in the five years between these two periods there was a reasonable amount of agreement, albeit grumpy agreement.[58]

The above comments about general institutional configurations of power (public-private and intergovernmental) provide only an initial basis for judging power. We now need to look in more detail at the partially connected and partially separate worlds of actual decisions since the mid-1960s as reflected in the selected policy fields and instruments that are examined.

Taxing, Spending and Deficits, and Shifts among Interests

David Wolfe's analysis of the deficit, and hence of the ongoing connection between taxing and spending in Canada, draws on both Canadian and other experience to point to the broad interplay between the nature of political representation and cumulative budgetary outcomes. Comparative analysis suggests that there is a greater tendency for countries that have been governed by centrist and rightist political parties, and with weaker labour representation in the overall structure of government, to produce not only greater deficits but also greater conflict over how to resolve the deficit. Wolfe cites further analysis which suggests that, since the mid-1970s espe-

cially, the key manifestation of the dilemma does not lie on the expenditure side or on uncontrolled social spending but on the political unwillingness to tax private (including corporate) incomes and wealth to a sufficient degree to keep deficits in line.

Wolfe links this to the Canadian case by showing the shifts in the base of power of the dominant Liberal party, which we sketched above. He shows the increased need as the 1970s emerged for the Liberals to cater more to the business sector base of their governing coalition than was done in the 1960s. This is then linked to the evidence in basic budgetary data, which showed that from the mid-1970s on, deficits were caused not by rampant expenditure growth but by declining revenues. The Maslove, Prince and Doern study, as well as recent work by the Economic Council of Canada, agrees in varying ways with the "declining revenue" thesis.[59] The key question then is what has caused the decline. Wolfe places a preponderance of the explanation on the underlying structure of public-private relationships of power, particularly increases in business power as revealed by tax changes in the 1970s. He is careful in pointing out, however, other contributing factors, which are of mixed political and economic content. These include persistent issues such as the need for a close link between the Canadian and American tax systems on account of dominant trade and investment flows; federal-provincial pressures; and the numerous policy reasons which accompanied particular tax breaks of the 1970s. The studies by Maslove, Prince and Doern and the Economic Council, partly because of their main focus, give the latter factors somewhat greater causal emphasis than Wolfe does; but they can be considered to be in broad agreement with Wolfe's basic line of argument that the deficit debate is, in real terms, a debate about the proper role of the state and hence can only be understood by being explicit, as Wolfe's analysis is, about the underlying changes in the structure of political power.

However, when relating shifts in power to the growth of deficits, one must at the same time deal with another overriding reality, namely that although business interests strongly oppose deficits, deficits have in fact grown markedly. This suggests that practising politicians have listened to and acted upon the preferences of other interests, including the electorate at large. These actions are a melding of responses to a variety of factors: the kind of ambivalence in public opinion that Johnston's reviews of data showed; the sheer entrenchment of social and business subsidy programs; the designed operation of the countercyclical "automatic stabilizer" programs, such as unemployment insurance; genuine belief in the need to protect vulnerable Canadians; and fear of unmanageable social unrest.

Wolfe's overall line of argument is also germane to the debate regarding the degree to which the deficit is caused by structural versus cyclical economic realities. While no one would seriously deny evidence that

structural change is occurring, given both market and technological changes in the world economy, such structural features also have considerable political content both domestically and in the heavy intervention practised by the governments of trading partners and competitors alike, including newly industrialized countries. Leon Muszynski's paper on Canadian labour market policies (which are defined to include unemployment insurance, job creation and training) also points to the structure of political representation in a comparative context; that is, he points to studies which show that there are demonstrable differences in levels of spending and degrees of coherent integration of labour market policies in countries where labour has strong representation and more constant political leverage. Thus, while economic research suggests on the one hand that there may well be evolving "laws" of natural unemployment rates which show no long-run trade-off between inflation and employment, there is also evidence regarding the exercise of varying degrees of political will. These degrees are closely linked to which interests have power, or at least some power some of the time. Muszynski shows the decline of commitment to what he calls an active labour market policy in Canada in the 1970s in all its dimensions, but particularly in per capita expenditure commitments to direct job creation and training.

In both Wolfe's and Muszynski's papers there is, however, a tendency to underplay the intergovernmental dimensions of power. There is certainly an awareness of this dimension, but there is also a sense of not knowing quite how to weight it. In part this may arise out of the normative frame of reference that any author utilizes, but it is also a function of the increasingly evident fact that relationships of power in Canada, because they institutionally begin with a double axis (intergovernmental and public-private), produce a configuration of power that is simultaneously more complex and greater than the sum of its parts. At the very least, a triad of relations among interests exists; but these must in turn interact with a broader shifting body of public opinion, including, in some sense, world or continental opinion, the latter being enhanced by the pervasive impact of the modern mass media and by the professionalized network of economic policy makers.

Policies on Income Security

The paper on income security policies by James Rice, while covering the interplay of power between public and private interests, places much more emphasis in its conclusions on the intergovernmental dimensions of power, but with a particular twist which I think has some broader implications for how one thinks about the state in the politics of economic policy and about shifts in power. Rice shows that broad political features created the income security programs, but that the programs in

turn produced a new politics. He then goes on to suggest how the sheer intergovernmental penetration and linkages, in a sense the bureaucratization of the federal-provincial state, which many argue is what makes our macro-policy insufficiently flexible (that is, inefficient), is itself perhaps the best protection against those interests who wish to dismantle social programs, either in the name of deficit reduction or in the name of "less government," and who wish to return to some undefined view of traditional values. In this sense, the state must be seen as producing a network of relationships of power that are hard to undo, not only because they are intrinsically bureaucratic but also because they are valued. Rice links this social security network to a broad base of support in public opinion, sources which Wolfe also cites to show how the public favours basic universal programs.[60] It is this entrenched network, a consolidation of past political gains as it were, that forms a social contract and prompts Rice to argue that a crisis of social policy does not exist if by that one means the probable unravelling of the welfare state.

Even though the income security programs (which, when defined broadly, could include the labour market policies examined by Muszynski) can be historically viewed as a residual policy which a reluctant but reformist capitalist state was pressured into adopting, it is not clear that over the next two decades such programs will remain a residual policy category. A strong case can be made that advocates of social policy needs not succumb to the argument that new wealth must be created before one can have more redistribution (in either the rich-poor sense or the rights-oriented view referred to in our review of ideas). A key question for debate remains; namely, whether such social policies are preconditions, or at least concurrent conditions, which are in fact necessary if economic development is to occur. We have already raised this in our discussions of ideas and deficits, and we shall return to the subject again, since as an issue of both normative and power politics, it is endemic to the basic kinds of stability and fairness that must exist in people's lives before they are willing to be efficient and to take risks.

Resource Policy and Shifts in Power

The other studies surveyed here also display divergent interpretations of the shifting pattern of interests. John McDougall's paper on three resource industries looks at the politics of resources from the perspective of national politics. In this paper, public policy on taxation and rents, procurement and economic diversification, and, in a limited way, the environment, are examined in relation to the oil and gas sector, forest products, and mining. McDougall concludes, perhaps somewhat surprisingly given the intensity of federal-provincial dispute in the past 15 years, that during the entire period since the mid-1950s there has not been that much conflict in real terms. While he acknowledges the impor-

tance of the 1973 crisis relating to the Organization of Petroleum Exporting Countries (OPEC) and the 1980 battle arising from the National Energy Program (NEP), he is strongly inclined to regard these as being somewhat unique and largely caused by externally induced shocks. Hence, they are special cases. Across all three sectors, however, and over the total time span, he sees the politics of resources as being essentially dominated by the power of private capital interests.

Whether assessed against taxation and rent capture or against procurement or the environment, private interests have always had, in McDougall's view, the decided upper hand in the power game. Part of this persistent weakness in public sector power is linked to the fact that the resources McDougall explores are provincially controlled and are associated with the classic struggle between the regional hinterland and the central Canadian heartland. McDougall argues that the sheer "marginalizing" of resource politics into diverse regional-peripheral settings gives the decided edge to private power in each provincial setting. He notes the increased taxation of the three industries that he covers, especially oil and gas, a fact that would in other circumstances indicate increases in public power; but he discounts this explanation because these tax gains are basically an increased piece from a greatly increased total pie, the commanding share of which is in private hands. McDougall also regards Canadian content and other environmental gains as being quite marginal, the latter in particular having to be "induced" by tax breaks from the public coffers rather than enforced by tough regulations.

While McDougall's analysis is instructive in forcing us to think about what really has happened in relationships of power over long periods of history, one is still left with examining other resource sectors, such as agriculture and fisheries, as well as hydroelectric power; one also needs to examine the mounds of public policy enacted by 11 governments, not only in the name of the broader normative agenda enunciated in the first part of this paper but also in the name of regional policy, industrial policy, and environmental policy. Is this all marginalized activity, in a sense the "to-ing and fro-ing" of minor actors on a larger capitalist stage? One obviously cannot do full justice to this larger array of policy activity, but one is obliged to look at some selective developments in this larger setting in order to gauge the strengths and weaknesses of McDougall's analysis, as well as alternative interpretations of where the shifts in power have occurred.

Other studies of the politics of resources reach different conclusions from those of McDougall. John Richards and Larry Pratt's analysis of developments in provincial policy in Saskatchewan and Alberta, especially those policies instituted in the 1970s, lead them to conclude that:

> Since the Second World War the central problem of development in Saskatchewan and Alberta has been whether or not the governments of these

> provinces could, with the passage of years and the appearance of a favourable political climate, mobilize the requisite will, expertise and power, to break with their inglorious rentier tradition. In turn, their ability to do this has depended crucially upon the outcome of political debates and conflicts. If the economics of the prairie region determined the boundaries of such debates, politics nonetheless mattered. The primary source of the entrepreneurial initiative and of the changes which have overtaken prairie capitalism since the opening of the new postwar mineral staples has been public, not private. In the final analysis it has been the ideas of politicians and the actions of governments that mattered most of all.[61]

In a study that examines federal and provincial oil and gas politics, including the development and implementation of the National Energy Program (NEP), Doern and Toner conclude that since the early 1970s a greater balance of public versus private power has occurred.[62] Indeed, they argue that the primary purpose of the NEP was to restructure relationships of power between the federal government and the oil and gas industry, and between the federal government and the producing provinces. They are more cautious, however, as to whether the gains in public sector power as a whole are sustainable over the long term. They distinguish in this regard two kinds of power: the initial power to achieve the adoption of the policy; and the longer term power to produce sustained changes in behaviour, that is, to implement policy. Part of their analysis would agree with McDougall that the NEP was a unique event which produced an exceptional political opportunity; but their overall analysis, based as it is on an examination of a wider range ofdecisions and on many types of decisions, would not agree that private power is in much the same position as it has been historically in this industry.

The range of views expressed above and the dilemmas of gauging power can be seen concretely through a brief reference to the debate about the comparative levels of taxation between the resource and manufacturing sectors to which McDougall refers in some detail. These issues are best seen against some basic background data. Given the contentiousness of even the simplest data in this field, especially since the 1979 leap in world oil prices, it is useful first to look at data that were presented to first ministers in 1978 and were agreed upon as factual by the two levels of government. As portrayed in Table 1-11, these data, covering the period 1969–75, compare the effective tax rate on book profits (that is, before income tax but after all mining taxes and royalties) of the mining versus the manufacturing sector. The mining sector includes oil and gas. The resource sector enjoys a consistent advantage, but in 1975 the tax advantage narrowed from about 25 percentage points to about 7 points. This reflected both increases in tax efforts in the mining sector and reductions in those in the manufacturing sector. (The latter were caused by the combined political and economic shifts already alluded to in the studies by Wolfe and by Maslove, Prince and Doern.)

TABLE 1-11 Profit Rate on Shareholders' Equity and Effective Income Tax Rates, Mining and Manufacturing, 1969–75

	Mining			Manufacturing		
	Profit on Shareholder's Equity[a]			Profit on Shareholder's Equity[a]		
Year	Before Income Taxes	After Income Taxes[b]	Effective Tax Rate[c]	Before Income Taxes	After Income Taxes[b]	Effective Tax Rate[c]
			(percent)			
1969	11.8	10.0	15.3	17.3	10.6	38.7
1970	14.9	12.5	16.1	12.4	7.3	41.1
1971	9.5	8.4	11.6	14.9	9.4	36.9
1972	6.8	5.7	16.2	16.9	10.8	36.1
1973	19.8	17.2	13.1	23.2	16.4	29.3
1974	21.4	16.3	23.8	26.7	18.7	39.0
1975	13.0	9.7	25.4	21.2	14.3	32.5

Source: Canada, Department of Finance, *Federal-Provincial Resource Taxation Review* (Ottawa: The Department, 1978).

a The before-tax profit rate is after the subtractions of all provincial mining taxes and royalties. The after-tax profit rate is then obtained by subtracting federal and provincial income taxes. These income taxes are before reassessments.

b. Income taxes subtracted to arrive at the after-tax profit rate are federal and provincial income taxes.

c. Effective tax rate is the ratio of federal and provincial income taxes to the before-tax profit rate.

Table 1-12 provides a further look at the same time period. It shows the total of income taxes and other levies as a percentage of book profits before any such payments. The advantages of the resource sector are again evident, but so are the increases in effective tax rates. The table also shows that the provincial governments accounted for over 16 percentage points of the increase, compared to about 4 percentage points for the federal government.

A key provision in the overall tax advantage enjoyed by these resource sectors was their ability to write off expenditures on exploration and development immediately, rather than through ordinary depreciation. In addition, resource industries were able to deduct an earned depletion allowance. The Carter Commission on Taxation had been critical of the tax advantages, particularly the latter one. Other experts, too, have since argued that earned depletion is an uneconomic and unfair tax advantage, since it is an allowance for the using up of a depreciable asset whose costs of acquisition have already been written off.[63] For its part, the industry has argued that these provisions are necessary because the risks of the industry are inherently greater; because tax rates have to be in line with tax regimes in the United States; and because other industries are subsidized in non-tax ways through subsidies and tariff support.

If one steps back from these data and compares the 1960s and 1970s as a whole, two overall realities stand out. First, in the 1960s the levels of taxation were quite modest and, for whatever reason, the resource sector enjoyed a considerable relative advantage. The increases in taxation that occurred in the late 1960s and early 1970s were primarily a product of increased provincial assertiveness. As owners of the resource, the provinces exacted a somewhat higher tax and royalty take for several reasons. First, in the late 1960s they were reacting to a general pattern of criticism that they had been too lax in obtaining a fair public share vis-à-vis private profits. Second, political parties for whom this had been a central line of attack while in Opposition came into power in the early 1970s and acted on their promise to extract a better public-private balance. Of particular significance in this regard were the Lougheed Conservatives in Alberta, the Blakeney NDP government in Saskatchewan, and, in different ways, the Barrett NDP and then the Bennett Social Credit governments in British Columbia. Third, as the value of the resource sector increased due to favourable terms of trade, governments found the new revenue opportunities more enticing and, given their new social programs, more necessary.

Judgments about power in the resource field must also take into account changes in the use of other policy instruments, such as regulation and Crown corporations. Indeed, it is a partial misnomer to refer to these as being resource policy measures only, since they overlap in major ways with industrial and regional policy. Three regulatory changes can be highlighted briefly in this context: the issue of marketing boards;

TABLE 1-12 Effective Tax and Royalty Rates on Mining and Manufacturing[a] 1969–75

	Manufacturing			Mining					
Year	Federal Income Taxes	Provincial Income Taxes	Total	Federal Income Taxes	Provincial Income Taxes	Provincial Mining Taxes and Royalties	Provincial Total	Territorial Mining Taxes	Total
1969	29.9	8.7	38.6	10.0	2.7	7.7	10.4	0.3	20.7
1970	31.7	9.5	41.2	11.4	3.1	7.0	10.2	0.2	21.7
1971	28.2	8.8	37.0	8.4	2.5	7.5	10.0	0.2	18.6
1972	27.2	9.0	36.0	11.5	3.5	10.2	13.7	0.2	25.4
1973	21.3	8.0	29.3	9.4	2.6	7.4	10.0	0.2	19.5
1974	21.9	8.2	30.1	14.8	5.1	16.4	21.5	0.4	36.7
1975	23.6	8.9	32.5	14.4	5.5	21.1	26.6	0.8	41.8

Source: Canada, Department of Finance, *Federal-Provincial Taxation Review* (Ottawa: The Department, 1978), p. 31.

a. The effective tax and royalty rate is on book profits before the deduction of income taxes and provincial mining taxes and royalties. The effective income tax rate on mining differs from that shown in Table 1-9 because of the addition of provincial mining taxes and royalties to the base.

the role of regulation-induced Canadian and/or provincial content procurement requirements; and the regulatory decision process, especially as it affects large projects.

The key regulatory trend in the agricultural sector was the growth of more specific commodity marketing boards and arrangements.[64] Economic research in the 1970s and 1980s increasingly showed the growing inefficiencies and inequities of these arrangements. Consumer interest groups initially complained about the lack of consumer or "public interest" representation on these marketing tribunals but later moved from a concern about structure to a more concerted critique of the effect on food prices and inflation. The political capacity of agricultural interests to secure new marketing protections of this kind was in part a product of the fairly stable base of political power that they enjoy across the country (unlike other regionally concentrated resource bases) and from the fact that agriculture was not the focus of persistent and visible high-level controversy. Blessed with a stable access to sympathetic agricultural ministries, the agricultural sector was able to secure benefits, in part because governments were, on the whole, preoccupied with other things, not only in general but also within the resource field.

The role of regulation-induced Canadian and/or provincial content and procurement requirements has also entered the realm of resource regulation. It goes well beyond resources per se in that it is closely linked with issues such as foreign ownership and the procurement habits of Canadian branch plants, and backward and forward linkages to diversify the economy. It also involves trade policy in that such policies, whether directly regulatory or whether conceived as acts of persuasion and negotiation, are often viewed (or are threatened to be viewed) by Canada's competitors and trading partners as non-tariff trade barriers. The Foreign Investment Review Agency (FIRA), indirectly, and the Canada Oil and Gas Lands Administration (COGLA), directly (in alliance with the Department of Regional and Industrial Expansion's Office of Regional and Industrial Benefits), have both been involved in this process.[65] Provincial governments are also involved, usually through a case-by-case permit requirement of some kind. In this domain of regulation, it is important to stress that one is not usually dealing with hard, fixed rules but rather with a process of negotiation and persuasion, sometimes mixed with the threat of a loss of subsidy or the delay of approval. It is less a world of rules than of "cases." Because of this, one cannot easily assemble evidence of performance changes, either in general or in specific resource contexts. Some of these evaluative dilemmas are tied up in the issue that is central to the Schultz and Alexandroff study, namely the transformation of regulation from a policy mode to planning modes (about which more will be said in the next section of our analysis).

Intertwined with these processes are features which arise out of the very size of projects such as building a pipeline or a large production facility. Large resource projects are by definition capital intensive. They are especially sensitive to financing and to capital market conditions, including interest rates, inflation rates, and medium- and long-term price movements. They induce all parties involved in a project to try to deflect risk onto others as much as possible. The realities of obtaining initial approvals and financing, and the period of sheer physical construction make some kind of long-term planning essential. Many potential resource projects involve technological novelty in all phases, including transportation.

Large resource projects involve high political visibility, though not of a one-dimensional kind. Most such projects are based in the hinterland and are thus physically remote from national and provincial capitals and from other large urban centres. There is high political visibility for the project at the time of decision and perhaps during construction, but many of the social effects are in the hinterland and in small surrounding communities. The project's multiple values and the large number of participants mean also that more than regulation as such is involved. Thus, packages of spending, grants, subsidies and tax breaks, verbal understandings and procurement practices, special pricing arrangements, and direct public investment through Crown or mixed enterprises could be involved. These packages are not easily assembled, because there are always disputes, i.e., politics about how much of the carrot and stick is necessary to achieve the many purposes of the project.

Thus, the very nature of a large project produces decision-making dilemmas, not all of which can be attributed to the greater breadth of goals that are now being pursued in the name of resource policy. Projects in Canadian history ranging from the building of the Canadian Pacific Railway, to the Trans-Canada Pipeline, to the St. Lawrence Seaway testify to the complexity of issues, even in eras predating environmental concern. What is different now is only partially due to the broader normative agenda. In part, it is also due to the fact that there are several large resource projects "queuing up" at the same time. This adds inescapable complexity to the task of gauging political power.

Finally, one must consider, in a similarly illustrative vein, changes in the use of Crown and mixed enterprises in resource policy.[66] There are about 70 Crown corporations or mixed enterprises operating directly or indirectly in the mineral resource sector (mining, oil, gas and hydro), about 20 being at the federal level and 50 at the provincial level. In addition, there are about 50 state enterprises owned directly or indirectly by foreign governments (primarily Western European), albeit with small total asset holdings. The Canadian Crown corporations range from giant enterprises such as Ontario Hydro, Hydro-Québec and Petro-Canada to

numerous small operations such as the Nova Scotia Coal Company. The list includes companies such as the Export Development Corporation and B.C. Rail, because such firms are often direct participants in the resource sector. An extended list embracing agriculture and fisheries would easily add a dozen more, including the Canadian Wheat Board and the Farm Credit Corporation, and such recently formed enterprises as Fishery Products International Limited.

While major public enterprises such as Ontario Hydro were established in the resource field very early in this century, and while others such as Eldorado Nuclear and Atomic Energy of Canada Ltd. were wartime creations, the majority of the firms have been established sine 1970. A simple count of the firms, moreover, does not reveal important patterns of development in each sector. In the hydroelectric field, public enterprises are clearly dominant, while in mining they occupy a very small asset position overall. The oil and gas sector remains overwhelmingly in private ownership, but firms such as Petro-Canada, Canterra (owned by the 50 percent federally owned Canada Development Corporation), Saskoil, and Nova and the Alberta Energy Corporation (both with strong links to the Alberta government) have moved into the top-20 list of oil and/or gas producers. In other more specific sectors such as potash and uranium, public ownership is dominant.

The political origins of these firms defy easy categorization since they address the full range of the resource development goals described above. Hydro-Québec was certainly the flagship of the Quebec government's desire to assert greater control over its own economy, both symbolically and substantively. Petro-Canada's original rationale embraced concerns such as the so-called "window on the industry" role to improve the federal government's basic knowledge of the industry, as well as embracing concerns about security of supply. As the company evolved, in the late 1970s and after the NEP, Canadian content and Canadianization rationales were embellished. Alberta established the Alberta Gas Trunk Line Company in the 1950s (which in the 1970s became Nova) as a mixed enterprise, partly to head off expected or feared federal incursions and partly to ensure that development was not controlled by eastern Canadian business interests. The Cape Breton Development Corporation (DEVCO) was established in the mid-1960s as a combined stabilization and social policy instrument whose task, as we noted earlier, was to wind down the Cape Breton coal industry and develop alternative employment opportunities. The nationalization of the potash industry in Saskatchewan was not the initial plan of the Saskatchewan government, an intense and bitter dispute over royalty and over greater rent capture led to the nationalization.

While several rationales exist, history suggests that on the whole, relative to other sectors, Crown corporations came rather late to the

resource sector.[67] This may in retrospect be somewhat surprising, since in other respects the resource sector would seem like a prime candidate, given its instability and its degree of foreign ownership. For the most part, however, public enterprise in mining, oil and gas, and forestry has been used as a last resort and not as a primary policy tool.

Environmental Policy, Interests and Social Regulation

The evolution of environmental policy attests to still other patterns of change among interests; but as we saw in our brief review of environmental ideas, this policy field can scarcely be called a "sector" of economic development policy, since in real terms environmental interests seek to promote a redefinition of what economic development is or should be.[68]

The manufacturing and resource sectors are equally linked to the growing environmental reality. Resources in their totality (water, air, forests, soil, animal and wildlife, land) *are* the environment. So defined, "the environment" also constitutes the foundation for key primary industries, as well as for tourism and recreation. Yet environmental policy, and hence politics, extends just as vitally across the manufacturing sector.

One can obtain some initial sense of these intricate links by referring to Figure 1-1. It portrays numerous points along the resource-production- manufacturing-transportation cycle where governments have intervened to influence or restrain environmental behaviour and conduct. They have done this via regulation, guidelines, incentive grants, tax breaks and penalties, and monitoring/reporting requirements. This visual aid, however, is deficient in three respects in indicating the true magnitude of the task. First, it fails to capture the myriad of particular individual pollutants or products that traverse the cycle. Second, it fails to reveal how some pollutants or products have many unique physical properties. These yield a technical/scientific dimension to the problem which affects the politics of the environment, including the burden of proof that interests must show. Third, the figure cannot convey the degree to which actual environmental improvement (that is, the actual implementation of public and private policy) is dependent upon many thousands of decision makers at all levels of government, in large and small businesses, and among a myriad of interest groups. Delicately balanced and interdependent, these resource-manufacturing-environmental elements on the one hand obey few man-made boundaries such as nation states, provinces, departments or businesses. On the other hand, they can be profoundly affected by the policies and actions of nation states and businesses, as well as by citizens.

All levels of government have enacted an imposing array of legislative provisions.[69] There are also non-statutory mechanisms. For example, in December 1973 the federal cabinet established the Environmental

FIGURE 1-1 The Resource-Manufacturing Production Cycle and Policy Stages for Environmental Issues

Stage	Exploration Extraction	Pre-testing of Proposed Products	Workplace Impact and Plant Equipment and Production Capital	Secondary Consumer and Workplace Impact	Community and Environmental Impact	Compensation for Death and Disability
Primary Regulatory Authority	Energy and Resource departments	Environment and Agriculture departments	Labour and Health departments; Finance and Industry departments; tax breaks and grants	Consumer, Agriculture and Labour departments	Health and Environment departments; Transportation department	Workers' Compensation Boards

Assessment and Review Process (EARP). EARP has no statutory basis. Its purpose is to ensure that environmental effects and impacts are assessed and taken into account at the earliest planning stages of federal programs and in projects involving federal dollars or federal land. EARP operates in two phases. The first is at the departmental or agency level; agencies make the initial determination about whether or not proposals or projects are likely to have significant environmental consequences. If so, then the second phase begins, namely a formal review of major projects conducted by the Federal Environmental Assessment and Review Office (FEARO). A panel of experts appointed by FEARO and the Department of the Environment (DOE) undertakes a public review, including hearings, of a detailed impact assessment document, which is prepared by the proponent agency in accordance with guidelines specified by the review panel. Since 1974, EARP has reviewed several major federal projects.

Critics of the process point to several weaknesses, especially EARP's lack of legal status and its purely advisory role. EARP functions, in the view of some, as little more than the ecological conscience of the federal government, its authority being based more on moral suasion than on legal force. Environmentalists want it to become virtually a central agency of government. Critics also underline the weakness of the hearings process. Although they are grateful for the existence of the panels as one of the few avenues of public participation, and although they acknowledge improvements in the review process as experience has been gained, they still regard the process as much weaker than its U.S. counterpart.

These features are illustrative of the main dynamics of environmental policy and implementation, and thus of how political power is exercised in an ongoing sense. Several related points must be stressed. The first is that the federal Department of the Environment has an extensive technical and advisory capability but only a limited inspection and compliance capability, since it relies on the provinces to enforce the few standards it has the authority to set. This is done through the provincial inspections and approval processes, and federal requirements are simply added to the order or approval.

One observer of the broader Canadian regulatory scene was moved to comment that in many areas of regulation, the regulated interests are not so much bitten with teeth as they are "gummed."[70] A second point about environmental implementation and regulation can be viewed partially in this light, in that there are very few across-the-board rules or standards. Those that were applied in the early 1970s did result in considerable environmental improvement, in that a relatively small improvement in anti-pollution investment and equipment produced important results, especially where new plant construction was involved. For the most part, however, the regulatory process involves a series of discrete (and usually secret) company-by-company agreements

and compliance schedules between the federal and/or provincial environment department and the company concerned. Fines and litigation have been rare, for there was a desire not to replicate the litigious "due processitis" of U.S. regulatory practices. Ministerial discretion reinforced this loose, essentially bilateral, government-to-company arrangement. While environmental interest groups tried to monitor environmental processes, their resources were far too thin and the arenas far too numerous for them to be able to act as a concerted third presence.

This key feature of political power is best understood in terms of the classic "free-rider" problem. Environmental interest groups have much greater difficulty in securing permanent membership, and hence resources, than producer and manufacturing groups, because people can obtain the benefits of their activity without having to join (hence the "free ride"). This means that such groups, which almost by definition could be expected to have the strongest institutional interest in environmental performance, face extraordinary organizational obstacles in the task of promoting and monitoring environmental issues. When one adds to this fundamental weakness the fact that there are literally thousands of "sites" for decision making, one can see that the task for such groups is next to impossible.

We do not intend to imply that other participants in the environmental/economic equation have no concerned interest in environmental improvement. They obviously do. But the reality is that there are private companies, and indeed governments, of widely varying sizes and economic strengths, which have widely differing commitments to the environment. This complexity is the overriding reason why the current array of discretionary features exists in the implementation process. Ministerial discretion, phased-in compliance schedules, protections for commercial privilege involving new products, and the use of guidelines rather than standards are all reflections of complexity.

The day-to-day compliance weaknesses that arise when one combines this complexity with the free-rider dilemma can perhaps be seen more concretely through a brief comparison with the closely related world of regulating occupational health. In regulating the workplace, there is very often an organized union presence on a day-to-day basis. There is therefore a much more persistent third-party presence, in addition to government and business, to help monitor progress than is generally the case in situations involving environmental regulation. This comparison is not intended to suggest that all is well in the field of occupational health. Rather, my point is a broad institutional one, namely that configurations of power in environmental decision making are a product of particular institutional and physical features in the production cycle.

A third feature of policy implementation is that all environmental departments have extremely limited enforcement arms, as well as a relatively modest scientific analytical capacity in view of the number of firms, the number of pollutants, and the very real technical nature of the

controversies and issues involved. Moreover, as we noted above, the federal government, partly to avoid duplication, has effectively handed back much of its enforcement to provincial governments. For the provinces, federal requirements have not been a first priority, since their own environmental departments have been minimally staffed.

A fourth point of considerable importance is that the will to enforce was lessened in the late 1970s and early 1980s for reasons that are now obvious: economic times were more difficult. Some of the suggested new or additional regulatory requirements involved significant investments, yet they could be expected to give less of a payoff in improved environmental quality at the margin than perhaps had occurred a decade earlier. The general call for deregulation, including the U.S. environmental rollback practised by the Reagan administration, also had some effect in Canada.

There were, to be sure, some continuing areas of particular environmental concern and regulatory pressure, such as those involving acid rain and nuclear power. The environmental (and native rights) forum supplied by the Berger Inquiry contributed to the decision not to proceed with the Mackenzie Valley pipeline; but in general, the evidence suggests that environmental regulatory zeal, however one assesses its size in the early 1970s, has declined since then. A reduction in per capita spending on environmental programs by both levels of government is one further measure of the decline.[71]

Thus, the record since 1970 suggests two overall trends. First, there has been, relative to earlier decades, considerable environmental progress which suggests an enhancement of public power defined broadly. However, with growing economic difficulties in the latter half of the 1970s, the commitment to environmental action has waned.

Economic Regulation

The Schultz and Alexandroff study of regulation and the Sutherland and Doern study of bureaucracy reveal still different lines of interpretation about shifts in the power of key interests. In some respects these are more akin to points inherent in Rice's analysis referred to earlier in that they imply to some degree that policy creates politics as well as vice versa. To appreciate this, one must summarize the argument of each study as it effects interests.

The main argument of the Schultz and Alexandroff study is that each of the three forms of economic regulation, i.e., policing, promotion and planning, produces different kinds of political conflict and different loci for the main exercise of power.[72] On the political conflict dimension, political interests and claims for representation and participation broaden as one moves along the policing-to-planning continuum. The

authors argue that this is because private interests have incentives to organize because of the increase in both costs and benefits. The more this process continues, the more the character of the political conflict becomes zero-sum in nature; that is, the gains of one interest are at the expense of another. On the locus of power dimension, the argument is that as one moves along the continuum, the power of private interests (or at least of the owner of the regulated entity) declines and the power of the regulatory authority increases.

In the three regulatory sectors which the authors examine, namely airlines, telecommunications and financial markets, they find evidence to support the transformation from policing to planning and for the political effects hypothesized above. They also draw inferences from their basic approach for federal-provincial relations. Since the provinces are active in regulatory settings in three senses: as policy makers, as owners of firms and as forums of representation for interests, their incentives to intervene in one or all of these roles are also increased by the same dynamic. The Schultz and Alexandroff study is one of the few in Canadian regulatory literature to compare three sectors concurrently and historically, and it is both valuable and persuasive within the logic of the approach used. The very nature of the regulation, namely the character of the policy instrument used and the kind of coercion it implies, can and does influence the nature of the politics. This is a proposition advanced by authors such as Theodore Lowi.[73] The cumulative entrenchment of the scope of regulatory relations, much like Rice's account of the entrenchment of social programs, produces congealed relationships of power. As was evident in our discussion of energy regulation and resources, studies of other economic regulatory sectors have shown similar trends.

The difficulty with the approach used by Schultz and Alexandroff is similar to that which critics have brought to bear on Lowi in the latter's enthusiasm to show that policy actually produces politics. While this is undoubtedly partially true, one is still left with explaining how the transformation from policing to planning occurred in the first place. The Schultz and Alexandroff study certainly makes frequent reference to broader public-private and intergovernmental interests and to the ideas and pressures they bring to bear. Fundamental changes in technology are also examined. In both the telecommunications and financial sectors, these changes are profound, raising issues of the international control of business and altering the structure of interests; but it is fair to say that the study as a whole does not build these into its basic mode of explanation. The quasi-independent influence of ideas themselves, including generalized consumer-citizen demands for rights to participate in the regulatory process, are also not fully treated.

Part of the analytical problem, for which Schultz and Alexandroff cannot be held responsible since it is endemic to all studies that focus on

single policy instruments, is that most policy fields in the 1980s consist of the entire spectrum of policy instruments, from taxation and spending to regulation and public enterprise. It is analytically difficult in these circumstances to isolate only regulatory effects or, conversely, to show conclusively how the structure of interests (including the federal government and individual provincial governments) leads to changes in the nature of regulation. Our brief review above of environmental regulation displayed similar problems.

Of considerable political importance in determining shifts in the power of key interests within any policy field over broad periods of time is the political agenda itself. In other words, a politically complete treatment must explain shifts in power partially in the context of basic changes in the agenda of overall priorities. Some policy fields are constantly high on the political agenda, and others are on the fringes or enjoy only periodic bursts onto the political stage. The fate of airline regulation and telecommunication has been more in the latter category, much like agricultural policy. There is obviously a continuing miniature political system in which these sectors function, but it is not always coincident with the central fulcrum of power. This, of course, is often what troubles critics of the modern political process. They point to the fact that dozens and dozens of small log-rolling kinds of decisions are made in semi-isolated decision arenas or policy fields. Over time, these decisions add up to produce what some wish to characterize as rent-seeking politics, the politics of marginal income-shuffling and semi-stalemating; in short, the 1980s version of mercantilism. Others may view this same process as one which has gradually yielded both decision processes and decision outcomes which reflect the broader range of ideas inherent in Canadian political life, including some efficiency, some equity, some regionalism, some stability and some nationalism. We shall return to these contending views when we survey the reform proposals for key decision structures which some of the authors advance.

The Administrative State

The Sutherland and Doern study of the evolution of federal and provincial bureaucracies raises some similar dilemmas to those discussed in relation to the study of regulation. First, it is a study about the very structure of the administrative state and hence analyzes the administrative state as an interest writ large. It shows the transformation of bureaucracy through three phases, each of which exists concurrently in the 1980s. Public Service Bureaucracies I, II, and III refer respectively to the traditional line department sector headed by elected ministers; to the quasi-arm's-length, semi-representative sector composed of an array of regulatory bodies, Crown and mixed enterprises, and education bureaucracies; and to the so-called "control bureaucracy," which

includes numerous rights auditors, each of whom is informed by institutional devotion to a particular rights criteria.[74] Sutherland and Doern examine the reasons for the transformation of these three types of bureaucracy and locate the explanation primarily in relation to changes in the underlying core institutions, namely federalism and cabinet parliamentary government. Some effort is also made to trace the larger emergence of a rights-oriented society and the emergence of new interests to explain why the bureaucracy has itself become an object of public policy and a crucible of social and economic policy experiments.

In one sense, it was necessary for Sutherland and Doern to tell the bureaucratic story in this institutional way; otherwise, in order to explain the emergence of literally hundreds of organizational expressions of political results (that is, laws, instruments and policy fields) they would have had to tell hundreds of partially separate and partially related stories. As a result of the basic approach, and in much the same way that the Schultz and Alexandroff approach highlights certain features and underplays others, the study gives only selected glimpses of the shifting power of interests in the larger scheme of things.

Two examples can be cited where shifts in the power of interests have been brought out in the study, and one example where possible indicators of power have been glossed over. In the first category, one can point to the overall generalized increase in the power of the administrative state, which arises simply because it cumulatively embodies an entanglement of statutes, instruments and organizations. Since the essence of bureaucracy in this basic democratic sense is to routinize and implement (in short, to produce reliable predictable behaviour in concert with democratically expressed wishes enacted through law), it reduces the capacity of some private actors to exercise discretion in their own interests in ways that they might have been able to do three or four decades ago. It may also enhance the discretion of others for whom previous free-market approaches were not as "free" as advertised. This, of course, is precisely what induces the ambivalence of Canadians toward bureaucracy. It embodies values that we have, in the past, wanted changed and/or entrenched, but at the same time it makes future change more difficult.

This is a different kind of power from that which attends the debate about whether senior bureaucrats as advisors have too much power in particular policy decisions at different times. The larger notion of entrenched cumulative power is also reflected in Sutherland and Doern's treatment of the role of political parties vis-à-vis the bureaucracy, both as institutions for potentially controlling the bureaucracy and as advocates of bureaucratic reform. Political parties, both as governing cabinets and as Opposition entities, treated the bureaucracy in the 1960s and 1970s as being something "out there." When they wanted to "reform it"

they agreed far more often than not to establish more bureaucracy; hence the emergency of the third bureaucracy to which the study refers.

A second example of shifts in power that are brought out in the study concerns the public servant as employee. The achievement of collective bargaining for public sector workers in the 1960s was itself a reflection of the constellation of interests within the Liberal party and in Canadian politics as a whole, which the Wolfe paper has emphasized. The attack on public sector employees in the 1970s and 1980s was a reflection in part of the increased power of business interests, including small businesses which were dependent on services such as those provided by the post office. At the same time, however, there would probably not have been such a successful and persistent attack on public sector collective bargaining had there not been an underlying basis in public opinion to support it. As we pointed out in the previous section, Richard Johnston's analysis of public opinion shows that such a body of opinion did exist. In part, this was a product of the cumulative critique mounted by business interests in the 1970s, but it was also due to the cumulative impact of citizen experience with the overall bureaucratization of society and of the state. In this context, Canada's regional political nature was easily exploited by political interests into a generalized charge that it was the federal bureaucracy that was most "out of control" and that it was distantly imperial and out of touch. This charge stuck politically even though, by several indicators, provincial bureaucracies were growing much more rapidly in most dimensions of measurement, whether by number of employees or by instrument growth.

As to shifts in power that the Sutherland and Doern study tends not to examine adequately, one is especially noteworthy. The study shows how various rights-oriented ideas have been cumulatively appended to the administrative state, and it suggests that this was because political elites were unwilling to make changes to society at large in respect of such rights. First, as a general proposition, this may suggest that the rights themselves are more symbolic than real and hence that one must draw larger conclusions about the inequalities that exist in political power. Secondly, within the bundle of rights examined, there is a failure to differentiate the degree of changes in power in particular rights criteria. For example, the rights of French Canadians as reflected in language rights and programs during the Trudeau era were unquestionably more than symbolic, for shifts in power did occur in this area of rights relative to the 1950s and 1960s.

While all the studies examined here have particular approaches which shed light on some shifts in power and ignore others, they do point to gaps between the full scope of ideas (as revealed by our separate account of the evolution of ideas in the previous section) and the actual exercise of power among interests at different periods of time in the last three

decades. Before bringing these two always related dimensions of the politics of economic policy together, we need to examine the third dimension of politics on which we focus, namely key decision structures and processes.

Decision Structures and Processes, and Selected Reforms

The studies examine several different structures and processes of economic decision making and present several reform options. Since these structures and processes range from very particular bodies (such as individual regulatory agencies) to the political party system, our discussion of this third dimension of the politics of economic policy must of necessity be selective. However, it will, we hope, at the same time be fairly representative of the key issues that arise from a review of three decades of institutional evolution and interaction. Accordingly, we focus attention on five issues: economic policy formulation in cabinet government; the budgetary process and parliamentary scrutiny of private interests; the coordination of resource policies and the bilateralization of intergovernmental relations; economic regulatory reform versus social regulatory reform; and the party system and bureaucratic control.

Economic Policy Formulation and Cabinet Government

While they are not the main determinant of economic policy outcomes, there can still be no doubt that the structure and dynamics of cabinet organization and behaviour affect the conduct of economic policy.[75] The studies show the difficulties that arise when the macro and micro realms of economic policy, which are already difficult enough conceptually, confront the need to satisfy the wishes of about forty ministers. Ministers obviously possess widely varying amounts of power and influence, and must satisfy the concurrent needs of being both individually and collectively responsible for policy. The expansion of cabinets cannot help but influence economic policy in that all ministers like to enjoy at least some small moments of influence, almost all of which usually imply some form of expenditure or regulatory increase. Thus, quite apart from any external pressures for fine-tuning and for "being seen doing things," the sheer dynamics of cabinet add to the stock of policy initiatives.

Several studies show the expansion in the number of federal economic departments (most of which have resided in the realm of microeconomic policy) and of experiments in controlling and coordinating the policies of these economic ministers via the Board of Economic Development Ministers and successive ministries of state. The latter were abandoned

in 1984, ostensibly on the grounds of enhancing the influence of individual ministers as distinct from central agencies. The studies also show the institutional decline of the Department of Finance in the 1970s relative to these economic policy competitors, but they also suggest that increased power has accrued to the Bank of Canada.[76] The rise of the latter was attributed to be in direct proportion to the emergence of monetarism and the declared intention in 1976 not to practise countercyclical policy to the same degree as in the previous two decades, since spending would not be allowed to increase beyond the trend line growth in Gross National Product. The decline of the Finance Department was related to even earlier changes, which saw it lose its former control of spending, partly because of the emergence of new central agencies and new economic departments. Some studies saw the Finance Department regaining power in the early 1980s.

These calculations of intra-cabinet ebbs and flows of power are important, not so much in terms of whether the estimated calibrations are exact (they obviously can never be) but rather in terms of indicating the sheer importance of positional politics within the cabinet. In short, economic policy is influenced by the ongoing calculations about just how much concentration of power can be tolerated in a cabinet, either by the prime minister in his ordinary decisions about leadership and control or by other ministers with regional bases and real or possible contending ambitions for leadership or advancement. It must be stressed that these calculations are never purely couched in games of power, because they are also interwoven with disputes about the ideas and goals to be pursued, as well as with the practical difficulties of management. The latter include the span of control and information that one minister can handle and the related needs of delegation.[77] Thus, "instant solutions" to the variously defined problems of control, such as severely reducing the number of ministers, may only raise other concerns about power and principle, not the least of which would be whether such solutions would increase the power of public servants. The latter possibility would arise because many of the functions of the eliminated departments would become branches of a department probably headed by a new assistant deputy minister.

To these realities one can add a further institutional reality which has greatly increased in importance since the early 1970s. This is the emergence of international and foreign economic policy structures, which we alluded to briefly in our introductory stocktaking of economic policy institutions.[78] The roles of the U.S. Federal Reserve, the General Agreement on Tariffs and Trade, the World Bank, and the research and opinion network of the Organization for Economic Co-operation and Development have tentacles that extend into cabinet, not only via several regular economic ministers but also via the Department of External Affairs.

Consequently, the "international state" has points of entry and an institutionalized presence which also affect economic policy formulation in cabinet government.

It is in the light of these features that the contemporary role of the Bank of Canada, the Department of Finance and its minister, and the other economic ministers must be viewed. Taking the last item first, the politics of economic policy perspective developed in this paper suggests that these ministers must be strongly coordinated through some centre of power within the cabinet. One cannot leave the numerous micro levers and arenas of power entirely free to fend for themselves. At the same time, one cannot hope nostalgically for the appearance of a 1980s version of a C.D. Howe to bash cabinet heads together. Thus, even though devices such as the Ministry of State for Economic Development have been abandoned, some kind of a substitute will have to be invented. Coordination means power in some form. It is a necessary cabinet ingredient, whether one sees a future of less government or more government.

The Bank of Canada and the Department of Finance are intertwined as well in the perpetual issue of coordination and power. An analysis of the bank must initially proceed on somewhat separate lines, but in an ultimate sense our views of it and the Department of Finance are best seen in the light of our larger discussion below of the budget process writ large. The Bank of Canada has grown in importance for several reasons. In its early years, it was much more of a "bankers' bank" with little discretionary monetary policy role.[79] The absence of a discretionary role was in many respects a legacy of earlier notions when currencies were tied to the gold standard precisely so as not to allow politicians to do harm via the inflated creation of money. In the 1960s and particularly in the early 1970s the Bank of Canada gradually took on a more discretionary role. In the early and mid-1970s it became subject to the overall monetarist critique; and in concert with the key changes made in the 1975–76 period referred to earlier, much of this critique was adopted as policy. The policy of monetary gradualism was intended to rein in the earlier discretionary role by tying the creation of money to reasonably firm rules that were linked to the underlying real growth rate of the economy. The net effect of these changes, in terms of our concern in this section for basic institutional processes, is that the Bank of Canada is a much more important macro-policy institution than it was two decades ago. However, there has not been much discussion of the basic arrangements for ensuring the bank's accountability to elected politicians.

In nominal terms, the governor of the Bank of Canada reports to the minister of finance, who accepts on behalf of the government the responsibility for monetary policy. In this sense, the governor is no different from the deputy minister of finance, or for that matter the heads of several major regulatory boards. However, he holds an additional power-

ful lever over his political superior in that if there is a policy disagreement, the minister must issue a public written directive to the governor. In part, this provision was adopted as a statutory provision to overcome some of the uncertainty that arose during the Coyne affair in the Diefenbaker era. The net effect is that the governor has extraordinary power. Indeed, the current governor has said point blank that if he received such a directive he would resign. In this light, it would indeed be a courageous finance minister who would dare to take him on.

While the governor does appear before a parliamentary committee, the lack of overall accountability is remarkable, given the major macro-policy role now played by the Bank of Canada. Within the cabinet, moreover, there are no regular mechanisms of accountability to the senior ministers, save that of the reporting relationship to the minister of finance and some contact with the prime minister. Yet it is the bank's decisions and their link with interest rates that have had a major impact in the last several years on the growth of government spending, since debt-servicing costs have been the fastest growing item. Monetary policy, moreover, is almost by definition not as regionally sensitive as fiscal policy (even the latter has severe limitations in this regard). In general, then, it can be reasonably argued that the Bank of Canada's decisions are relatively more important than in earlier periods, while the bank itself is less accountable. In asserting this proposition, I am not arguing that the bank has unlimited manoeuvrability vis-à-vis interest rates. I am arguing, however, that whatever the level of manoeuvrability, there is need for a more sustained form of accountability than now exists, both within the cabinet and in the context of parliamentary scrutiny. This general line of argument must be linked, however, to the budgetary process and to the role of Parliament in the scrutiny of private interests.

The Budgetary Process, Parliament and the Scrutiny of Private Interests

Our discussion of interests in the previous section, and of business and labour in particular, was partly couched in the context of the right of interest groups to exercise the influence that accrues from the right to associate freely. It also centred on the overall value of consultation. These developments must also be examined in relation to the parallel democratic need to scrutinize such interests themselves and in relation to the larger role of Parliament in the budgetary process. The budget (revenue and expenditure) is certainly a central focus for economic policy formulation; but its "reform," as the Maslove, Prince and Doern study argues, should be viewed in a much broader context than it has been in recent years.[80]

An elected parliament (or legislature) is the most legitimate political institution that Canadians have, since they have some voice in choosing it. Private interests and interest groups, while making a different democratic

claim on society, have a less easily defined legitimacy which has always been in tension with parliamentary democracy. This is perhaps even more the case in the 1980s, given the plethora of interests and the number of claims made by the established interest groups of business, labour and consumers, and by interests that are the product of a more rights-oriented society. Parliament exists to hold a political executive to account, but the concurrent political reality is that these same private interests are key beneficiaries of different slices of the tax and expenditure pie. Key major interests, moreover, persistently and increasingly present overall views about fiscal, monetary and social policy, partly in private and partly in a form of often-ritualistic pre-budget speech consultation. Often they present their views in such a way as to convey what they would do if they were the government, but without actually having to govern and without having to relate their claims of self-interest to other claims. Their democratic right to express these views is a perfectly appropriate one. The imbalance occurs in that their overall views are not examined in a sustained way as are the government's views and positions and those of key Opposition political parties. In part, this is because the government in a parliamentary system is indeed to be held responsible, while private interests are not. In an era of big government this is a distinction that, while still important, needs some significant amendment.

The Maslove, Prince and Doern study suggests several reasonably clear developments about the role of budgeting in national goal setting, but it also stresses that the reform implications are not equally clear.[81] First, at both levels of government, as we have already seen, the goals expressed by elected politicians have broadened greatly. In one sense, this should hardly be surprising in that the presentation of budgets is one of the two main non-election occasions in which they can communicate priorities and indicate that they share all or most of the values of the electorate. Governments have grown significantly in the past three decades, as have the number and specificity of the interests in the political system that make varying open and hidden claims on the two halves of the public purse. Budgets simply reflect this. Second, in recent years, especially at the federal level, the breadth of goals in combination with the increased frequency of budget speeches and statements has produced a significant decline in the goal-setting function of budgets and a rise in the more evident use of federal budgets as tactical occasions. The former arises from a loss of clarity in indicating the government's views of the economy, such as might have attended budgetary eras of the 1950s and early 1960s. The increased tactical use of budgets, particularly of the budget speech, refers to the increased need to use budgets as ways of countering partisan opponents in parliamentary warfare. Third, underlying these developments (both as cause and effect) is the continuing presence of several layers of accumulated budgetary reform norms and paradigms. These include balanced budgeting, Keynes-

ianism, monetarism and various versions of managerial rationality. While these are closely linked to larger political ideologies and ideas, they are reinforced by the professional knowledge groups that populate a budgetary process which is becoming increasingly professionalized and which, therefore, to a certain extent lives a life of its own.

The implications of these trends, while separately identifiable, are not wholly clear. Underlying the notion of a decline in the goal-setting function of budgets is a view that earlier budgets (in the 1950s and 1960s) served this function more effectively. Does this mean that "better" is equated with having fewer goals, such as those that resided at the core of orthodox Keynesian macro-policy? Could it not equally be argued that goal setting has in fact improved precisely because budgets now reflect a wider range of goals, which have been endorsed, more or less, by successive electoral verdicts delivered in Canada's 11 partly separate and partly interwoven political systems? Put another way, budgets are no longer economic policy occasions but are social and economic policy occasions. Maslove, Prince and Doern do not regard the simple expansion of goals as evidence of decline. Nor do they lament the partial passing of the Keynesian notion of macro-policy at the federal level and its melding into microeconomic realities which structural issues force on the modern budgetary agenda. More goals probably mean less clarity since more trade-offs are implied, but this is not democratically undesirable. The (partial) joining of macro- and microeconomic concerns is to be welcomed. What this indicates is that one must think more carefully about how budgetary processes can be partially restructured so as to enable debate and scrutiny to deal with modern complexity. Maslove, Prince and Doern do think, however, that resort to increased budget frequency and to the excessive use of budgets as tactical occasions is harmful, since it further reduces even the minimum sense of direction that may now be possible from budgets.

An important related feature of budget reform is the imbalance in Parliament's scrutiny of taxation versus spending. David Wolfe's paper obviously adds further support to this view. The research as a whole concludes that there are, in general, stronger processes for sustained scrutiny of the expenditure system than there are of the tax system. Both systems have a form of front-line scrutiny in a classic parliamentary sense, in that legislation is debated, and in the sense that particular interests watch over their stakes in particular segments of the two halves of the fiscal pie. Beyond this, however, the second line of scrutiny, that is, the main area of sustained scrutiny, diverges. At the federal level, there is no equivalent agent of scrutiny for taxation analogous to that which the auditor general supplies on the spending side. The auditor general stressed this weakness in his 1984 annual report.[82] This does not mean to suggest that taxation is not criticized at all. It is the overall institutional balance that is of concern.

As shown in the previous sections of this paper, there is a tendency for many private interests, especially business interests, to view tax measures as acts of non-intervention. Of course, these interests do not have entirely consistent views regarding the tax system, for they concurrently complain about the complexity of the system and about high taxes and the like. Some reform pressures have occurred in the realm of tax accountability which prompted the federal government and the British Columbia and Saskatchewan governments to publish a tax expenditure account. But the practice was dropped after two years. Earlier in this paper, when discussing David Wolfe's analysis, we stressed how, in the last half of the 1970s, the growth of the deficit was largely due to a revenue shortfall rather than to runaway expenditures. The larger public debate during that period did not reflect this reality. In presenting these examples we are not suggesting that each piece of evidence separately adds up to political distortion and the need for instantaneous reform. The clash of interests in a political system that contains parliamentary government, federalism and capitalism is complex. Our review of the early 1970s shows that expenditure growth, due to the influx of easy revenue, was the deserved focus of attention. But the situation had changed in the latter half of the 1970s. What is involved here is the need to bring both the first- and second-line processes of scrutiny of both taxation and spending into greater balance so that there is a higher probability that public debate will match, more accurately and with less lag time, with the underlying changes and their component parts.

While research indicates that the expenditure side of this equation is in somewhat better shape than the taxation side, the studies also draw attention to some of the distortions in accountability that are inherent in the auditor general's adoption of value-for-money and comprehensive auditing. No one can doubt the importance of the auditor general's overall role and presence in the total network of institutions, but the new role partially distorts accountability in two senses. First, the unelected auditor general has commanded a vast increase in resources to scrutinize spending. However, he is not permitted to scrutinize policy and he has thus invented a broader notion of value-for-money auditing which focusses on "systems" of information and decision making. Meanwhile, elected members of Parliament, whose job it is to scrutinize actual policy, lack the resources to do so, despite some increase in basic research support. In spite of the auditor general's inherent popularity with the media, I believe it to be a distortion to equate the Auditor General's Office with Parliament itself, as is so often implicitly done.[83] The Maslove, Prince and Doern study proposes a shift in institutional roles so that the unelected auditor general would focus on traditional auditing (that is, honesty and probity in government finances) and on efficiency, while elected politicians would focus on the scrutiny of policies and programs. The latter would require a focus on "values" for

money rather than only on value for money (though efficiency would remain a vitally important criteria) and hence would bring scrutiny into line with the array of goals which, in fact, politically underlie both spending and taxation decisions.

A final but vital issue that affects the accountability and scrutiny process is the role of the mass media, especially television. We have already drawn attention to some of the excesses of the tendency of politicians to be seen to be doing something, including the pressure for "another budget." There is also an intense connection between the government, the tactics of short-term Opposition warfare in Parliament, and the media's penchant for short-term everything. Advances have been made in televising Parliament. In this regard, the "bearpit" politics of Question Period gets the greatest share of attention. Although the House of Commons is also televised at times other than Question Period, these telecasts usually portray a few stray members of Parliament listening to one another speak. A strong case can be made that both these portraits distort politics. By this we do not mean that partisanship and verbal machine-gun scrutiny are not essential. Rather, we see the need for additional uses of television in Parliament in such a way that the "other faces" of political reality are brought into more sustained view, preferably without quite as much of a role for journalism as the proverbial "three-minute interpreter." In short, since television is the dominant mode of mass media, we see a need for linking the broad goal-setting occasions that budgets should be (including the issue of public-versus-private scrutiny) to the development of new televised forums in the national Parliament, focussed on key committees.

Maslove, Prince and Doern link this view of budgetary reform to the issue of pre-budget speech secrecy. Although many equate this issue with budget reform, Maslove, Prince and Doern show how narrow a part of the reform agenda it in fact is. The conclusions they reach are quite categorical: if governments cling to the practice of budget secrecy, this can be attributed not to any convincing philosophical rationale but to the residual drama that the secrecy practice gives to the budget speech as a tactical political occasion. Given the increased frequency of federal budgets in recent years, even this tactical advantage may be of dubious, or at least unpredictable, advantage.

There are three philosophical reasons as to why the practice of budget secrecy should cease. Since ministers do not actually resign when breaches of it occur, the practice only brings disrepute to a basic convention of cabinet-parliamentary government, namely ministerial responsibility. Since the secrecy prevents full internal discussion within cabinet, it reduces collective cabinet responsibility for what is arguably the most important set of decisions a government takes; moreover, it increases the probability of major errors, such as occurred in the 1981 budget. Finally, since other types of decisions are not accompanied by

such extremes of secrecy despite the equal possibility of private gain, its retention is out of step with other progressive practices that have evolved over the years. Maslove, Prince and Doern are not arguing for an end to all secrecy as such; cabinet secrecy must exist to encourage frank debate within the cabinet. Moreover, any major government decision should be announced in an orderly way rather than dribbled out in bits and pieces.

A reasonable case can be made for a federal-provincial agreement on the timing of budgets (e.g., within the same month for each spring or fall), at which time both the revenue and expenditure budgets would be presented in all 11 legislative settings. Since the provincial budgets are in the spring, this basically means federal action. Whether done in the fall or spring and whether done by agreement or by constitutional change, the concurrent debate could provide somewhat more of a focus for pre-budget consultation of both a federal-provincial and public-private kind. The obvious argument against this type of coordination of timing is that no finance minister would give up the tactical flexibility that uncertain budget dates provide. Moreover, even if agreed to, the minister could always get round this by making an "economic statement." Although the increased frequency of budgets is to a certain extent a part of the problem, it is by no means the whole problem; hence the coordinated timing of 11 budgets is not in itself central to the overall thrust of the argument. More important is the combined rationale regarding the imbalances, which if addressed through basic parliamentary institutions, especially at the federal level, could help improve one of the important functions of any budget, namely that of providing an occasion and a forum in which economic goals and priorities are discussed and communicated. Obviously we do not regard this as a reform millennium. However, when combined with the related parts of the reform package cited below, the proposed changes are worthy of serious consideration.

No one familiar with the complexity of modern political and economic life can expect economic or pre-budget consultation to occur in one political arena only. Intergovernmental relations and public and private sector relations will occur in several arenas prior to the preparation of a budget. Nevertheless, if as suggested above, there is a focussed parliamentary forum, then a further contribution to a balanced sense of budget reform could be envisaged, one that would be focussed on the House of Commons and thus on Canada's primary democratic representative institution.

It is in this forum that a more concerted attempt could be made to begin addressing the two imbalances that are examined in the Wolfe paper on deficits and in the Maslove, Prince and Doern study of budgeting, these imbalances being the lack of scrutiny of the evolving tax system compared to the spending system, and the failure to subject the fiscal, tax, and spending ideas and proposals of key private interests to

more sustained security. This latter category could also include the various economic think tanks and forecasting bodies.

The broad contours of the reformed process are suggested in the Maslove, Prince and Doern study. In the eight weeks prior to the budget, a standing House of Commons committee on the budget (revenue and expenditure), whose proceedings would be televised in the same way that the 1982 committee on the Constitution was, would conduct hearings at which the positions of key interests, as well as the government's performance, would be subject to sustained scrutiny. The importance of televised hearings is stressed. The televised Constitution committee of 1982 is a precedent here, since it saw Parliament at its best but in a setting that was not Question Period. There was good partisan criticism, but there was also persistent non-partisan comment. Interests that appeared could not get away with the usual brief and often glib 20-minute presentation. They were subject to sustained scrutiny. Moreover, Canadians in reasonable numbers had an opportunity to witness the scrutiny and the positions taken, and to do so in a more direct way, without the habitual three-minute veneer supplied by television on the national news or by a brief column in the press. Once again, no millennium is envisaged here. Ten million Canadians will not suddenly become eager fans of fiscal policy television. What is advocated, however, is the need to visualize reasonable new or refurbished forums which somehow cover and approximate the basic dimensions of the modern making of the budget and the modern conduct of economic and social policy, along with the governmental and private interests involved in it.

In respect of the imbalance in the scrutiny of tax policy, the studies show the need for some analytical capacity to support the above committee (perhaps through the Economic Council of Canada with a revised mandate). The analytical task that is envisaged is not one of assessing the "systems" of tax decision making but of assessing the impact of tax policies. The forum envisaged here is one in which elected politicians, backed up by proper analytical support, would scrutinize tax decisions that had been made or were being proposed, doing so in pre-budget settings or in the course of debating other issues throughout the year. Indeed, in this regard the analytical resources of a body like the Economic Council, augmented by some of the personnel in the Auditor General's Office, could serve as the base for both tax and expenditure analysis.

This line of argument is not constructed on a single-dimensional plane. It does not envision "one-stop shopping" for budgetary consultation and debate. It recognizes fully the enormous and valuable staying power of the key institutional bases of political power that are rooted in federalism, cabinet-parliamentary government, and the right of interests to associate freely and to lobby. At the same time, it points out conclusively the persistent mismatch between the underlying realities of

decisions and patterns of spending and taxing, and the way that these are discussed. Not all of the mismatch is a problem, nor are we imputing blame to any single institution. Political systems always struggle with the problem of how to learn and adapt. Core institutions are always related to one another. Yet some of the mismatches must be corrected. There are significant discrepancies in the way in which budgetary realities and budgetary myths arise: between changes in the tax system and views of intervention; between revenue loss versus expenditure growth as "causes" of the deficit in different periods; among the de facto versus rhetorical achievement of restraint goals defined in various ways; and on the realities of the growth of government in general and of specific program areas in particular at different times and in relation to which level of government was contributing most to the growth. The main way to begin to nudge "the system" into a closer match is to try to discover forums of basic legitimate representation and to relate them to modern modes of televised communication, scrutiny and information in a more sustained way than has been attempted thus far.

The Coordination of Resource Policies and the Bilateralization of Intergovernmental Politics

In his conclusions in his paper on the politics of resources, John McDougall lends his support in principle to earlier general proposals for a formal interprovincial pooling of resource rents.[84] He argues that this would enhance the sense that Canadians as a whole have about the importance of their collective resource endowment and its future use and development. It would also lead, in his view, to greater national equality in the treatment of resource revenues that are brought about by the provinces themselves. Given the volatility of rents, he sees this separate arrangement as being superior to any attempt to reinclude it in the equalization system, which is basically financed out of federal revenues. The Economic Council of Canada's study of energy policy, which included the key related issues of provincial hydro rents, has also called for the sharing of resource rents, but with direct federal involvement.[85] In the case of the council's proposal, federal resource revenues from the Canada Lands are also included.

Aside from these rationales, both proposals place considerable emphasis on the need, in a sense, to depoliticize resource politics. The Economic Council, for example, sees the main benefit of such an arrangement as being "a more resilient and systematic fiscal shock absorber between the federal and provincial governments."[86] McDougall expresses a similar line of argument by suggesting that a sharing arrangement would avoid to a considerable extent the need to enter "time and again into the politically (and fiscally) messy business of

modifying the formula for federal (equalization) payments in the wake of periodic and fortuitous increases in the resource-based income of various provinces." Both obviously have in mind the wrenching battles that surrounded the 1973 and 1979 energy crises.

While neither of the above studies sees this as a panacea, such proposals for structural and institutional change in the revenue dimensions of resource policy do beg basic questions as to what the inherent nature of resource politics is, not only in the oil, gas and hydro fields but in the always connected realms of forestry, fisheries and water. They also beg questions about the limits of resource policy coordination as a whole.

The uneven configuration of regional resource endowments, the even more uneven stages of developmental progress, and the pattern of interests that coalesce around preferred governmental sponsors and patrons suggest that resource politics have become, for good political reasons, more bilateral than multilateral in their intergovernmental character; that is, they increasingly involve relationships between the federal government and a given province, or between a pair of provinces, or between three governments (such as resource relationships involving Alberta, Ontario, and the federal government). These dynamics are much more bilateral than multilateral if one defines multilateral as meaning the ten provinces dealing with the federal government. Moreover, it is politically impossible to separate the revenue issues from the issues of resource management per se, that is, the pace and the mode of development. Since the latter may also turn on vitally important large projects, each one of which is physically unique, this serves to increase the pressures for bilateral political deals in an intergovernmental sense.

All of these features indicate why it is unlikely that such resource revenue-sharing proposals will find favour. At the same time, advocates of such proposals raise genuinely important concerns. There is a sense in which Canadians do not see their resources as a common heritage. Although they have a shared general portrait of resources in the sense of the vastness of the country and the link between resources and the environment, it is not clear that they always or coherently see the degree to which there is a gap between our stylized, even romantic, notion of our resource wealth and what is actually happening to resource use and development through numerous ad hoc decisions which are increasingly struck in a network of bilateral intergovernmental relations.

Economic Regulatory Reform vs. Social Regulatory Reform

In previous sections we have looked at regulation from two different starting points. One was supplied by the Schultz and Alexandroff study, which began with the notion of economic regulation: the regulation of entry, price setting, and standard setting the latter being viewed as

standards regarding the quality of the service being provided. Within the field of economic regulation so defined, the Schultz and Alexandroff study then showed, as we have seen, the transformation from a passive policing to an active planning form of regulation that was inherently more multi-valued in nature. The second starting point is that which arises from our discussion, in this paper, of environmental regulation, which conceptually is usually viewed as social regulation.[87] Social regulation is specifically intended to influence and require greater safety, health and fairness, with the last of these concepts being defined not only in terms of service quality but also in terms of procedural fairness and participation in the decision process itself.

In much the same way that social welfare policy has been historically established as a residual of economic policy, so social regulation can basically be seen as a residual of economic regulation, at least in the chronology of overall regulatory history. The expansion of economic regulation into more complex modes of intervention, when combined with the existence of social regulation (especially of the broad environmental kind) creates an important issue as to how to judge the basic options for regulatory reform writ large. In short, this is the parallel to our discussion of budgetary reform writ large.

It must be appreciated that in thinking about regulatory structures in this broad sense, one is not normally thinking about single entities such as the National Energy Board (NEB) or the Canadian Transport Commission (CTC). When one combines economic regulation with social regulation, the typical situation for the industry, the individual company or the citizen is that an array of regulators surrounds their sphere of activity. Thus, in all probability there exists an industry-specific regulatory entity impacting vertically so to speak, as well as regulators whose mandates cut across on a horizontal basis. The latter more typically are the social regulators since, as we have seen, these cut across all dimensions of the production cycle.

This reality is of no small import when one considers the kinds of reform alternatives that Schultz and Alexandroff discuss in their conclusions and when one looks at the likely institutional need of future environmental regulation. Schultz and Alexandroff examine four general options for the structural reform of economic regulation: the status quo, joint federal-provincial regulatory mechanisms, political regulation and deregulation.[88] The status quo obviously refers to the planning modes which the authors identify in the three sectors examined in their study. Joint mechanisms envisage a range of possibilities that could include a broadening of constitutionally concurrent fields or changes, such as provincial appointees on key national regulatory bodies. Political regulation refers to the greater use of bodies such as the Foreign Investment Review Agency (FIRA) which contained not only multi-

valued negotiating criteria but was closely linked to direct ministerial cabinet involvement. Finally, deregulation refers not to a wholesale return to market dynamics but to major steps to lessen regulation. In some instances, this may bring existing planning modes of regulation back to simpler policing modes.

Schultz and Alexandroff are careful in reviewing the pros and cons of these options and are aware that the options are not entirely separable. In the context of producing a more adaptable economy, one senses from their conclusions, however, that selective forms of deregulation are their preferred focus for future reform. Each of the sectors they are dealing with (airlines, telecommunications, and securities and financial markets) are in a sense infrastructure sectors which are being influenced by profound changes in technology, although of varying degrees of magnitude. In this context, their implied preference for deregulation may well be the wisest choice. They are also careful, however, in not elevating deregulation into an undifferentiated call for a return to the free play of market forces, nor do they extend its application to all regulation. While this seems such a common-sense point of view, one needs to give it emphasis because labels such as "deregulation" are so often utilized in the media and in rhetorical political debate without reference to underlying realities.

Beyond this, however, there is a sense in which the structural conclusions reached by the Schultz and Alexandroff study (precisely because it starts from a focus on economic regulation) cannot capture the full panoply of regulatory structural change. While it may be possible to foresee some economic deregulation occurring, it is equally plausible to suggest that social regulation will increase. For some industries and firms this is not what they would expect, and indeed they might view it as the worst of both worlds; they might be subject to more entry competition through deregulation on the one hand, while being subject to increased social regulation as well. To make this latter case for a needed increase in social regulation, we need to return to some of the institutional implications suggested in our discussions about environmental goals and interests. Accordingly, we draw attention to problems that are basically institutional at each of the stages in the decision process regarding environmental hazards and occupational health, namely project and product approvals, regulation and standard setting, and compliance and monitoring.

The movement of environmental-occupational hazards through the complex production cycle and across international boundaries clearly necessitates an extraordinary level of intergovernmental and public-private cooperation, but at the same time there is much conflict as to how much progress is feasible. No one can deny that the task is a complex one. Any review of the statutory basis of environmental policy makes the intergovernmental complexity fairly clear. However, key features of

the public-private complexity are not as apparent from our analysis in earlier sections.

The key need is to develop an institutional capacity to monitor cumulative decisions so that Canadians can be sure that decision makers are indeed taking them along a long-term economic and environmental path which they broadly support. It is in this sense that environmentalists are right in seeing the need for a form of "non-GNP" social accounting that captures some "non-economic" indicators of well-being. This said, however, it must then be acknowledged that it is not easy to obtain agreement on what should be in this environmental monitoring system. Such a system could contain national, regional and sectoral environmental criteria. Thus, progress could be reported on particularly high national and regional priority pollutants or hazards, on particular major bodies of water, and on groups of major companies and Crown corporations in different sectors. A national body with the requisite core of independent scientific expertise could also be established to identify hazards that are, or are likely to be, particularly injurious in the coming years.[89]

Beyond this basic monitoring capability, there are other ongoing requirements: the need to encourage public participation yet to avoid the excessive regulatory "lag" caused by multiple-hearing requirements, especially regarding large projects; the role of litigation in the compliance process; and the role of pollution fees.

The balance between sufficient regulatory participation and consultation and the need for efficient decision making is a delicate one. As the Saskatchewan Mining Association pointed out, "Environmental regulation at the developing stage can add unnecessary costs to a project . . . [and] can result in costly delays."[90] Certainly, in the case of major project approvals, which are almost inevitably intergovernmental in nature, a key reform would be to work toward a single, combined hearing and approval process. While desirable, this is not always achievable, not just because of intergovernmental jurisdiction but also because of the need to assess the same project against non-environmental criteria such as energy or transportation concerns.

The question of putting the federal environmental assessment process on a statutory basis is also important in this regard. At present, there is considerable discretion as to whether the assessment will be held. In part this is because, taken literally, almost any federal decision involving any amount or size of federal property, federal funding or federal involvement would, if the hearings were made statutory, involve actual hearings. The answer here may be to establish threshold sizes for projects where assessments would be compulsory. This would have the added advantage of demonstrating a greater institutional concern for the environment, and it would add greater predictability to the decision process. As a general principle, governments should work toward single,

consolidated hearing processes wherever feasible, and federal environmental processes should be put on a firm statutory basis with threshold levels for projects.

Not all of the reform proposals for environmental decision making can, however, be ones that reduce or consolidate the time involved in decision making. Environmental decisions, including related occupational health issues and issues such as the transportation of dangerous goods, do exhibit great technological complexity, as well as involving scientific controversy as to the nature of causality, the appropriateness of standards and the burden of proof.[91] Whatever consolidated hearings/approval processes are devised in the future, far greater attention must be given in their procedures to the proper exposure of technical and scientific controversy. This is likely to involve more time than has conventionally been employed. On the other hand, the current lack of agreed procedures can also produce delays, as participants use the "science debate" as a tactical way of blurring the underlying economics and politics of the decisions.

While the above concerns centre on the project-approval or standard-setting phase, a related set of issues emerge at the day-to-day compliance/enforcement stage. The movement to greater statutory certainty raises the issue of whether the overall environmental statutory regime should involve stiffer penalties and/or greater opportunities for private litigation. As a general model, many see the U.S. regulatory regime as being superior because it imposes stiffer penalties and is more litigious. Others see this as a recipe for excessive "due processitis." Still others are suspicious of the U.S. system but nonetheless cite the degree to which governments in Canada cannot possibly be neutral regulators, since their own Crown corporations and investment dollars are often involved as the promoters of projects; in other words, they play the multiple-interest roles to which the Schultz and Alexandroff study alludes. The Charter of Rights and Freedoms, moreover, may create new opportunities for litigation, regardless of what is explicitly designed for the purposes of environmental policy.

The trade-offs here are numerous. For example, take the issue of private company-to-regulator agreements over compliance schedules. A case could be made that such secretive bilateral agreements make sense, given the bewildering myriad of tens of thousands of individual situations; but the trade-off could be a system of very stiff penalties that are publicly known and that "kick-in" on an agreed schedule when compliance does not materialize. Alternatively, there could be somewhat softer penalties but a bar on secrecy involving the compliance schedules and agreements.

This kind of trade-off is cited to illustrate what seems to me to be the main reality of the next phase of environmental regulation, namely that the complexity of the task requires a considerable mixture of all the devices of governing: the carrot, the stick, persuasion and public infor-

mation. The key is to produce a combination of decisions that represents sustained implementation; in short, real changes in behaviour. However, this reality is precisely why one can see very real limits on the capacity to draw back (deregulate) from the planning modes that are inherent in environmental social regulation. All participants in the environmental issue have now had more than a decade of "learning curves" and experience. Despite environmental improvement, we have seen how governments and private firms alike have been able to pull back from earlier levels of commitment. For these reasons, I believe the next two decades require a sustained form of institutionalization and entrenchment of the many forums in which environmental decisions are made.

It is in this broader sense that a new political and economic maturity must be brought to bear on the issue of using policy devices such as pollution charges.[92] This is not to argue that the levying of pollution charges is the only solution. We argue, rather, that when used with other policy instruments they can contribute to improved and sustained behaviour. Such charges internalize the costs to the company involved and give it a concrete incentive to change its economic behaviour and its future decision making. Nevertheless, the situation is always complex and multifaceted.

Bureaucratic Control and Political Parties

When one attempts to identify one or two broad-scale structural issues that concern the capacity of elected politicians to "control" the bureaucracy or the modern administrative state, the dilemmas of choice should by now be very apparent. The bureaucracy is simultaneously an assemblage of officials governed by laws; an institution that is intended to have power in the sense that it exists to implement policy and therefore is expected to contribute concretely to bringing about desired changes in behaviour; and an array of policy instruments and departments and agencies which develop lives of their own. Our foregoing discussion of everything from the structure of economic departments to resource policy coordination, and from the budgetary process writ large to the regulatory process writ large, is also simultaneously a discussion of what the Sutherland and Doern study referred to as Public Service Bureaucracies I and II. There are obviously, therefore, a number of structural features of bureaucratic control that one could focus on.

The Sutherland and Doern study drew attention to two features of structural control which have not been a central theme in recent published analyses. One of these we have already referred to in previous sections, namely the identification of a third control bureaucracy.[93] In broad reformist terms, the authors suggest that these bodies are the most "out of control" part of the administrative state, when looked at in terms of basic concepts of parliamentary scrutiny and accountability, and they suggest mechanisms to improve the accountability of these bodies.

In this final section, however, we focus more on the issue of the role of political parties themselves, the second feature of basic structural control that the Sutherland and Doern study raises vis-à-vis the administrative state. The study explores the role of parties as a primary institution for the control of public service bureaucracy, including the specific ways in which political parties could operate as more successful control institutions in each of the arenas or aspects of party activity, namely as electoral vehicle, as a democratic forum in convention, and in caucus.[94]

First, the study deals with the assumption inherent in democratic elections that the winning party will carry out a policy plan, the mandate, which has been seriously considered and approved by the electorate. Even taking into account the normal excesses of electoral debate, there is at least a minimum expectation that governing parties assume power with a more or less coherent view of what they wish to do on a list of key items. The notion of a politically neutral public service is essential in this parliamentary concept of democratic politics, since it presumes that it is the duty of the public service, especially at the senior bureaucratic levels, to serve the wishes of any party that is elected to govern, tendering its considered advice in a responsible way that is sensitive to the priorities enunciated by the party in power. It should not engage in anything that compromises its partisan neutrality. As for Opposition parties, the system also presumes that criticism will be directed to the cabinet, in part at least on the assumption and expectation that one of the Opposition parties may one day form a government and hence will need and want an expert public service to serve its needs.

If there are overriding institutional impediments to the democratic political control of the public service's policy role, they are in many ways partly attributable to the extremely uneven way in which the party system functions in the electoral context. There are certainly examples where parties have made their key positions clear, but there are also many where electoral tactics were based on the classic perceived need to be vague so as to assemble a coalition of aggrieved voters and interests (the "outs") who would turn out the "ins." In still other cases, the winning party has taken actions directly opposite to its campaign promises. While there is a strong tendency to label parties as being only vehicles for electoral mobilization and to label elections as being the politics of leadership and not of issues, the actual record is in fact a mixture of these factors, since some issues and priorities are closely linked to leaders. This kind of evidence must then be linked to the actual pattern of electoral results and to party competition.

In national politics, the Canadian party system has exemplified what could easily be regarded as almost a textbook scenario for reduced policy control of the public service. Until the recent victory of the Mulroney Conservatives, Canada had one-party dominance by the Liberal party for all but 9 months of the past 20 years, and for 22 of the

previous 27 years as well. The party system has, moreover, been highly regionalized with neither the Liberals nor the Progressive Conservatives in a position over the above two decades to be a truly national party. The longer the Conservatives were out of power, the more suspicious and distrustful they became about the neutrality of the senior public service. The Liberals aided and abetted this perception by politicizing the public service to some degree. This was not a wholesale politicization, but rather one in which appointments to the deputy minister level and to some boards and agencies, of some people with direct partisan connections, led to the suspicion that the ideal of the political neutrality of the public service was being significantly eroded. In the context of the Liberals' longevity in power, this ensured that one of the main institutional devices that control the policy role of the public service was partially compromised. While neutrality is preferred in one sense, putting trusted partisans in key positions can mean greater control for the governing party.[95]

It is obvious, however, that it is not just the lack of alternation of the parties in power that affects the democratic control of bureaucracy. The way in which parties go about developing party policy is itself a factor, perhaps especially in economic policy. The parties "in convention" (annual leadership review or leadership meetings) do discuss policy, but more in the form of compiling a wish list of resolutions. There are examples of what might be called benchmark conventions, such as the Liberals' 1960 Kingston conference, which helped set the agenda of the Pearson Liberals when they assumed power in 1963; but the two major parties are not known for developing a platform on the basis of elaborate party processes. Only the NDP pays sustained attention to mechanisms for generating, testing and consolidating policy, including policy in detail. Neither of the two parties that can seriously expect to hold office have processes in their riding or national meetings, or in their conventions that produce a sustained concern for policy mandate which truly prepares them for office. By this Sutherland and Doern do not mean that every policy adopted by the party must eventually be adopted by the government (the party "in office"). Rather, they have in mind the main broad mechanisms through which accountability and control operate. If on the one side ministers face a Parliament that does not function as a check because it is not organized around any clear principles or realistic priorities, and if on the other side a party lacks any apparatus to check on the progress of agreed policy strategies, then conditions are ripe for maximizing both de facto bureaucratic power and the perception of bureaucratic power.

In this regard, the connection between party and Parliament is absolutely crucial, yet it is usually overlooked. Within the House of Commons "the party" is the caucus. The ways in which ministers are accountable to the governing caucus is yet another point at which the

party can exercise more control in the sense of exerting steady pressure on ministers. Caucus meetings are held weekly when Parliament is in session. Many government party MPs stress the importance of caucus as their prime area for getting answers from ministers. One could argue that more frequent caucus meetings, both during sessions and when Parliament is not in session, would increase the points of pressure on ministers and thus help to counterbalance the daily pressure of bureaucratic advice. Special caucus measures could be used in pre-budget and similar major occasions. However, there are limits to this too, not the least being ministerial time and the time of MPs who have other committee duties and have constituency responsibilities as well. There may also be some constitutional improprieties involved if the government gives too much advance information to its own caucus and not to the House of Commons as a whole.

The treatment in the study of these key arenas of party activity does not suggest that any one of them is the solution to the control of the bureaucracy. It is the total array of points of leverage and contact that can add to the potential for greater control. Thus, "the party" is the membership at large in democratic meetings; the cabinet as the fulcrum of governing; and the caucus in day-to-day, week-by-week interaction. Sutherland and Doern argue that when Canadian parties are dealing with their remedies for taking control of policy by exerting better control of the bureaucracy, they have too easily ignored their own potential role at each of these points of entry and leverage. They have too easily succumbed to managerial reformism as a substitute for hard thought about their own institutional role. While the situation is obviously different in some degree for the Opposition parties, since by definition there is no consolidation of the party into a governing cadre (and the duty to oppose certainly affects their agendas), this does not fundamentally affect the verdict they reach about the degree to which the party system forgets about itself when it thinks of reform of the bureaucracy and of government.

We must exercise some caution in looking at the party-bureaucracy connections in this way, particularly in our larger concerns about the politics of economic policy. While political parties are usefully examined in this way, since they are often lax in performing these basic roles vis-à-vis bureaucracy, there is more to both "party" and "bureaucracy" than is implied by our concluding focus. For example, Wolfe's analysis of shifts of power within the Liberal party is also vital, since it embraces not just the party in convention but the links between business interests and the party in financing the party and in recruiting key leaders. In a similar vein, one cannot always impute virtue to the party as cabinet when it is controlling the bureaucracy. There are occasions when the bureaucracy, that is, key senior officials, do Canadians a great service by pointing out realities to unprepared parties or ministers who have simply not thought through with much care what they want to do. In doing this,

the bureaucracy is performing a proper constitutional role but one which can easily be portrayed as a usurpation of power.

In the above discussion of the third dimension of the politics of economic policy, we have drawn attention to five reform issues involving core structures and processes. There are obviously others that we have not chosen to examine, given our already ambitious task. These include federal-provincial pre-budget consultations, the tax and equalization agreements, and the structure of collective bargaining, to name only three. Moreover, we have looked at each structural issue serially when in fact they exist concurrently and function in relation to one another. At the same time, this section has begun the task of bringing the overall connections between ideas, interests and power, and key structures together. Much more of this last vital task is necessary to bring the analysis full circle.

Conclusions

In keeping with the dual purpose of this overview paper, two sets of conclusions are offered. The first deals with the main policy fields that are discussed by the authors of the papers in this volume. The second deals with several overall issues about the role of the state in the economy, drawing somewhat more on the three larger studies.

At the broadest level it is apparent that basic political processes and values will not allow economic policy to be conceptualized or acted upon in any simplistic efficiency-oriented way. The goals of economic policy have broadened and reflect diverse ideas. Some narrowing of goals is detectable in the realm of macro policy owing to the emergence of the conservative critique, but this is matched to a considerable extent by the diverse ideas contained within industrial, resource and regional policies. While core ideas ebb and flow and are subject to volatility in measured public opinion, they nonetheless exercise a quasi-independent but permanent influence.

Of special importance in the near- and medium-term future in the debate about economic development is the way in which both social policy — in the form of income security programs — and social and environmental regulation are encapsulated within the very meaning of economic development. Environmental ideas more directly represent a fundamental and valid challenge to narrower views of economic development since they posit that no ultimate long-run trade-off can occur between growth and a sustainable ecology and since they involve interventions at every main phase of the production cycle. Although this paper has shown that environmental commitments have waned in recent years, there remains a strong underlying base of public opinion in support of key environmental concerns.

The issue of social security programs raises somewhat different conceptual concerns, but in a fundamental way there is a strong case to be

made that such programs are a vital precondition for economic development rather than a realm of public spending that should be significantly sacrificed in the name of economic development. Central to this last point, but not unrelated to the environmental-social regulation point raised above, is the vital political and practical connection between concerns for stability versus risk taking. At one level, many business interests and professional economists call for a proper "climate for investment." This readily becomes a code word for stability in which such interests are in fact saying, "Please make my world stable so that I can take risks; but to make my world stable, please make the world of others, especially labour, unstable, that is, mobile." Consider what the opposite clarion call might be. Let us create a climate for employment in which labour and the unemployed might say in exact parallel, "Make my world stable enough through basic income, insurance and retraining so that I will take the risk of being mobile." I draw attention to the linked issues of stability, social policy and economic development in this way for two good reasons.

The first reason is to show that stability is indeed a powerful political and economic idea, but that it is usually buried in the obscure code words of public debate. Sometimes it surfaces into honest open language such as in the Keynesian promotion of stabilization policies. In most settings, however, one has to look to the code words. Thus, agricultural producers want "orderly marketing"; some interests want to remove "barriers to trade"; others want reduced social programs, but with enough left to produce a suitable "safety net," a high-wire metaphor for those whose social partners fail to catch them; still others charge that we have become an "entitlement" society.

The second reason is that stability as an idea is both good and bad, much as change and risk taking are good and bad ideas. The key question is always how much of each is desirable and, in democratic terms, how fairly are the apportionments of change and stability allocated among interests, income groups and regions. This is why, in basic political terms, the politics of economic policy is not always interested in obeying the analytical constructions of economic policy, such as macro-policy versus micro-policy, or even historical divisions between economic policy versus social policy.

Within this broadened notion of economic policy and the political content of its meaning, one can then make other concluding comments about deficit, income security, labour markets, resources and environmental policy.

On the issue of deficits, whatever the economics of deficits may be, it is clear, as Wolfe's paper suggests, that politically the debate involves much more a struggle over the role of the state as such. This is evident in the arguments about both the causes of the deficit and the "solution" to it. Those interests that wish to cut back on spending, particularly social

spending, plainly want less government. This is particularly evident when this view is combined with the evidence that the revenue attrition of the latter half of the 1970s is not seen as part of the "cause." In my view, the solution to the deficit in political terms must involve a mixture of increased taxation and lower expenditures, but with the latter spread across all program sectors and the former linked to a broad-scale tax reform that would restore greater progressivity as well as simplicity to the tax system. While no one doubts the difficulty of proceeding along this path, a political analysis of deficits suggests that this is the only path that has a chance of accommodating the diverse ideas and interests which underlie Canadian politics, including some sense of equality for low-income Canadians. This is why we have cast the budget reform debate in such a broad way to include both the revenue and expenditure side. It is also why, in the previous section, we advocated new budgetary processes, whereby both public and private interests would be scrutinized in a more sustained way than has been the norm in the past two decades.

Because of this line of argument and because of observed changes in the nature of economic policy formulation in cabinet government, we do not greatly regret the partial demise of Keynesian macro-policy as a distinct concept or event tied to the budget speech. The worlds of macro-policy and micro-policy, the latter perhaps roughly equated with the elusive notion of industrial policy, are increasingly interwoven. Because of this, we see the need for economic decision processes within the cabinet that break down some of the isolation of the minister of finance from other key ministers. Since the mystique of the doctrine of budget secrecy contributes to this and is underpinned with other philosophical weaknesses, we advocate its abolition as a norm of the economic policy process. Similarly, we see the need to broaden the accountability of the Bank of Canada to a wider range of key ministers within the cabinet as well as to Parliament.

For the purposes of our concluding comments, it is useful to look in a combined way at the fields of labour market policy and income security policy, and to relate them to the broad question of what constitutes the political meaning of either acceptable or achievable levels of unemployment. This is perhaps the most difficult point of intersection and interpretation between the "economics" of economic policy and the "politics" of economic policy. The preponderant tendency in economic research (which is itself informed by political ideology) has been to assert the existence of a natural rate of unemployment, defined as a non-accelerating inflation rate of unemployment, and to relate this to structural features of the world economy and domestic economy. By definition, structural features are medium- to long-term in nature and hence cannot be solved in the short term. Meanwhile, politics churns away in the short term, bedevilled by electoral cycles, by much "ad hockery"

(which in practical terms means the need to cater to diverse values and interests), and by the annoying habit of being unable to foresee the future accurately.

While no one can seriously deny that some structural economic changes are occurring, there still remains the reality of dealing with what the marginal exercise of political will and power actually is vis-à-vis unemployment levels, not only in different countries at the same time but also within countries at different times. In short, it still makes an extraordinary political difference if a government, to use a hypothetical example, is prepared to take steps to try to reduce unemployment from 10 percent to 8 percent, perhaps with a sacrifice in inflation or other indicators of performance. This range of political will can involve short-term and medium-term measures. What several papers in this volume have tried to show and be explicit about is that these levels of marginal but vital political will are directly related to the structure of basic democratic representation and to the leverage which key interests exercise at different times, including the present.

It is in this sense that the Muszynski and Rice papers are especially germane in an overall political context. The Canadian government's relative lack of commitment to training and job-creation programs in the latter half of the 1970s was partly due to the loss of influence of labour interests (which has never been very strong at the best of times) in the structure of interest representation. Rice's analysis shows that income security programs locked in a web of intergovernmental relations have prevented this lack of commitment from being even worse. Yet in some respects, both studies underplay other political-institutional factors which economic research is more likely to be sensitive to as being evidence of political malaise and hence being in need of political reform. In the case of income security programs, the same bureaucratic web which protects many vulnerable Canadians also entraps others, because the "system" promotes in some instances perverse incentives which make it more attractive for some recipients not to work or not to change their behaviour. In the case of areas such as training programs and education, there can be little doubt that the big education bureaucracies (which are a major part of what the Sutherland and Doern study calls Public Service Bureaucracy II) also produce undue rigidity.

Thus, the key to understanding some of the politics of economic policy in Canada is not to develop a sweeping "villains and heroes" approach but to develop an approach that deals with complexity on its own terms and draws out as explicitly as possible the existence of shifts in power, ideas, and structures and processes.

The resource policy debate graphically illustrates this need. Whereas in the macro-policy realm we believe there is evidence to suggest a rise in business influence since the mid-1970s, the situation in the resource sector is arguably less clear. Thus, I have taken some dispute with

McDougall's overall conclusions about the dominance of private power. In the 1970s there were important increases in the combined exercise of federal-provincial power vis-à-vis the private sector in the resource field. In the agricultural sector, I also attribute a steady exercise of state intervention via marketing boards on behalf of an interest that is a producer interest but is not viewed as being part of any dominant business sector. Indeed, I attribute much of the agricultural sector's relative political success to the fact that it is not in the political limelight but has a steady pan-Canadian presence in all regions and a steady access to its own part of the state. In an intergovernmental sense, the analysis in this paper has also portrayed the resource policy sector as being characterized by a bilateralization of intergovernmental relations. Because of this, I suggest that there is a low probability of support being found for the practicality of the idea of sharing resource revenues as some studies have proposed.

As to the second set of conclusions, those dealing with the role of the state in the economy, several overall observations emerge from a political analysis focussing on ideas, the power of interests and structure. It was stressed at the outset that the state must first be viewed as an amalgam of institutions and values, and not just as government in the sense of executive government. Political parties that successfully gain power and the right to govern may well sit astride or on top of the government, but they are more accurately characterized as being sandwiched in the middle of the state.

First, they must deal with the reality of the administrative state (Bureaucracies I, II and III). The administrative state is simultaneously, as we have stressed, an amalgam of past exercises of power and principle, and a threat to the capacity of governments to act in new ways. From this stems the storied ambivalence we have about bureaucracy; we do not like it in general, but we support most of its individual parts. When one looks, as we have done, across several economic policy fields and policy instruments which embody hundreds of miniature political stories, one can also begin to appreciate another reality about modern political power. This is the need to differentiate two kinds of power, the power to gain the initial adoption of a policy or decision, and the power to implement, that is, the power to produce desired changes in behaviour in a reliable way over sustained periods of time.

The first kind of power is undoubtedly the most familiar kind, and we have looked at it in a number of ways. We have stressed from the outset, however, that judgments about shifts in power among interests as a whole do not leap clearly out of pristine statistics. Rather, they must be observed by piecing together different kinds of information, recognizing all the while that the world does not conveniently stand still so that all other things being equal one can take the pulse of power. This is especially the case at the level of gauging public-private and intergovernmen-

tal power. The reality is that in the Canadian case power is founded on a complex double axis. The political and hence public policy equation is almost always simultaneously a public-private and intergovernmental one. Indeed, it is increasingly also a triple-axis set of relations in that international relations grow ever more important. To state these kinds of points seems to be stating the obvious. Yet one constantly needs to appreciate this triadlike nature of power. In the research being reviewed, there is considerable evidence to support those who question the degree and uniformity of the province-building hypothesis about the growing cumulative power of provincial government. There remain, for example, real limits on the degree to which "have not" provinces can exercise political muscle. Moreover, the bilateralization of intergovernmental relations in the resource sector is itself partly due to the unique configuration of private interests which surround each regional resource base. On the public-private axis of power, we have seen some increase in business power in macroeconomic policy but different configurations of power in other realms. In the macro-policy realm, however, we have also stressed that even though business interests are most opposed to deficits, we nonetheless have large deficits, thus indicating the operation of other kinds of influence and power as well as the interlocking nature of programs.

The second kind of power is much less familiar in that one is often inclined to want to call it something else. Often it is called "policy implementation" without recognition that contemporary policy implementation does not involve just the things that officials do. Increasingly, it involves large amounts of private behaviour, in short, thousands of private actors taking up, partially responding to, and often opposing the cues, incentives, exhortations and rules of the modern state. Public policy seeks to change or confirm behaviour in desired predictable ways, but in reality all public policies are also hypotheses waiting to be tested. In several realms of policy surveyed above, this equally important reality of the exercise and limits of modern political power has been shown. The partial demise of macroeconomic policy of the legendary fine-tuning kind has run into the realities of private implementors who refuse to be tuned. The experience with actual compliance in environmental policy must partly be understood in this context. So also must the tendency to use the bureaucracy as a social policy laboratory, which is done in partial recognition that society as a whole might not behave in reliable ways.

The studies as a whole also show, often with extreme concreteness, that the state must be seen as an institutionalized pattern of relations reaching out to private interests and citizens in diverse and unequal ways, and vice versa. Again, in one sense, this is the most simple of propositions, but it is of no small importance when discussions arise as to the probable course of government intervention in the future. The state is not just executive-bureaucracy incarnate. It is also the "tax

system," the "regulatory system" and the "expenditure system." One can call them "systems" precisely because they are to some significant extent valued in ongoing ways, both for what they deliver to interests and for the structure of decision-making power that each involves. In terms of the debate about government intervention and about the future role of the state, however, our studies suggest highly varied probably patterns of change. In the field of regulation, for example, there is evidence to suggest that selected deregulation would indeed be valuable. At the same time, as the previous section pointed out, there are grounds to believe that social regulation will and should increase to a significant extent.

While the approach used in this paper and in the studies as a whole has been based on an interplay of ideas, interests and power, and structures, and hence cannot readily be accused of being narrow in scope or ambition, it is nonetheless abundantly clear that it does not deal with all dimensions of the politics of economic policy. There is, for example, a partially separate realm that embraces citizen-state relationships and is composed not only of views of individual and group rights but also of shifting constellations of public opinion in a television age. Finally, there is the impact of the international state in all its bilateral and multilateral dimensions. We have hinted at these dimensions but have scarcely done them justice. If anything, however, developments in these two realms add impetus to our overall line of argument, which sees very little room, in an overall sense, for the depoliticizing of economic policy in the Canadian context.

Appendix A
Tables of Contents for Three Related Commission Studies

- Volume 41: *Allan M. Maslove, Michael J. Prince and G. Bruce Doern,* Federal and Provincial Budgeting: Goal Setting, Coordination, Restraint and Reform
- Volume 42: *Richard J. Schultz and Alan Alexandroff,* Economic Regulation and the Federal System
- Volume 43: *Sharon L. Sutherland and G. Bruce Doern,* Bureaucracy in Canada: Control and Reform

Federal and Provincial Budgeting: Goal Setting, Coordination, Restraint and Reform

Allan M. Maslove, Michael J. Prince, and G. Bruce Doern

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Economic Regulation and the Federal System

Richard J. Schultz and Alan Alexandroff

* * *

Bureaucracy in Canada: Control and Reform

Sharon L. Sutherland and G. Bruce Doern

Appendix B
Notes on Expenditure Data for Five Provinces: Nova Scotia, Quebec, Ontario, Alberta, and British Columbia*

The two largest claims on expenditure in Nova Scotia have consistently been health and education. Health care spending constitutes about one-quarter of the province's budget. In per capita terms, health costs have grown slowly but quite steadily. Education spending peaked in 1969 (in terms of budget shares) and it has declined in relative terms fairly steadily since then. All other spending categories are much smaller in relative terms. Economic development functions have occasionally jumped for a year or two, but overall there is no clear evidence that the province is shifting its expenditure priorities in this direction.

A little more than half of government revenues in Nova Scotia are raised from the province's own sources. Personal income taxes account for about one-third of its own revenues. Equalization payments are the largest component of transfers, accounting for more than half of Nova Scotia's total grants and about one-quarter of its total revenues.

Quebec devotes more of its budget to education than any of the other provinces and spends the smallest proportion on health care, though health is still the second largest budgetary item in Quebec and in per capita terms Quebec's health spending is one of the highest. As in Nova Scotia, there is no budgetary evidence that economic functions are being accorded higher priority; if anything, the budgetary share of these functions has been declining. Quebec spends a higher proportion of its budget on general government (which includes administrative overhead) than any other province; this observation is consistent with other evidence that Quebec is more heavily "bureaucratized" than other provinces. Finally, transfers to local governments are relatively low in Quebec. This reflects the fact that the provincial government directly finances some functions that are locally financed in other provinces. Some education costs are one example (which also partially accounts for the high education spending by the province).

Over three-quarters of Quebec's revenues are generated from its own sources, with equalization payments accounting for about half of the remainder. Almost 40 percent of the province's own revenues are provided by the personal income tax, the highest proportion of any of these five provinces. Sales tax revenues are also important but have been declining in relative size (and in per capita constant dollars) in recent years. Payroll taxes (including Quebec Pension Plan premiums) have become increasingly important in relative terms (and per capita) over the decade of the 1970s.

Health expenditures account for the biggest share of the Ontario budget by a considerable margin. In fact, Ontario government officials regard the control of health care costs as clearly the single most important (and difficult) budgetary

**Source:* Allan M. Maslove, Michael J. Prince and G. Bruce Doern, *Federal and Provincial Budgeting: Goal Setting, Coordination, Restraint and Reform*, volume 41 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).

problem they face. At the same time, it is interesting to note that several other provinces spend more than Ontario on health care on a per capita basis. Education costs, while still the second largest category, have been declining steadily and quite rapidly (in relative share and per capita terms) since the early 1970s. Here again, there is no evidence of rising expenditures on economic development functions.

Ontario generates over 80 percent of its revenues from its own sources. It receives no equalization, so Established Programs Financing payments and social welfare transfers (Canada Assistance Plan) account for the remainder. While the personal income tax and the general sales tax are the two largest own-revenue sources, Ontario also receives significant revenues from the corporate income tax. All tax revenues together make up most of the total, and in the aggregate their share has remained over the years; Ontario's non-tax own revenues have not been growing in importance.

Alberta is the only province that has been clearly increasing its economic development expenditures since about 1973. In particular, expenditures in agriculture, industry, trade and tourism have grown markedly and correspond to the province's policy objective of broadening its economic base beyond natural resources. Alberta devotes a larger share of its budget to economic development functions and a smaller share to social development than the other provinces do. However, Alberta's per capita social spending is higher than all other provinces except Quebec. Among the other noteworthy expenditure trends is the rapid decline in the relative size of education expenditures since the early 1970s. In constant dollars, per capita education expenditures in 1981–82 were slightly less than they were ten years earlier, and substantially less than five years earlier.

The most noteworthy observations about Alberta's revenue structure are the prominence of non-tax revenues and the absence of the general sales tax. Non-tax revenues, particularly return on investments (involving the Alberta Heritage Savings Trust Fund), constitute a larger revenue source for the province than either the corporate or the personal income tax. Alberta's oil and gas revenues account for about half of the province's own-generated revenues. Alberta thus derives most of its revenue from its natural resource deposits; this is simultaneously a sign of its heavy and increasing dependence on its resources and a sign of its wealth, allowing it to maintain low income tax rates and not to levy a sales tax.

Expenditure patterns in British Columbia are similar to those in Ontario in several ways: health care is by far the largest item in the budget; relatively, education spending has fallen quite rapidly since the mid-1970s and there has been no clear trend towards increased spending on economic development. However, patterns in Ontario have been much more stable over the years than in British Columbia. In addition, over most of the 1970s British Columbia's general government spending increased at a faster rate than total expenditures and therefore accounted for a significantly larger share in 1981–82 than was the case at the beginning of the 1970s.

Over 80 percent of British Columbia's revenues are generated from its own sources. Like Ontario, the province does not receive equalization payments from the federal government, so Established Programs Financing and welfare transfers account for the remainder of its revenues. Personal income taxes are

British Columbia's primary revenue source and their prominence has been growing. The general sales tax is the only other source generating more than 10 percent of the revenue total, but its prominence is declining. Returns on investments have increased since the late 1970s. Natural resource revenues increased markedly but erratically for brief periods in the mid- and late 1970s.

Notes

(These notes provide only a basic guide to the sources used. See also the detailed notes in the four other papers in this volume and in the three monographs listed in Appendix A.)

1. See Allan M. Maslove, Michael J. Prince and G. Bruce Doern, *Federal and Provincial Budgeting: Goal Setting, Coordination, Restraint and Reform*; Richard Schultz and Alan Alexandroff, *Economic Regulation and the Federal System*; and Sharon L. Sutherland and G. Bruce Doern, *Bureaucracy in Canada: Control and Reform*, volumes 41, 42 and 43, respectively, of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985). It is important to stress that the intent in all of these studies is to analyze broad trends so as to inform a lay audience rather than academic experts. While each study contributes considerable new research, and thus should be of interest to specialists, we have, on balance, sought to direct our analysis at the informed lay person. As an example of this focus in this paper, it should be stressed that we deal with the role of the state in a general but, we hope, useful way. We do not present an extensive analysis of the considerable theoretical literature on the role of the state. See, for example, Leo Panitch, ed., *The Canadian State* (Toronto: University of Toronto Press, 1977); O.P. Dwivedi, ed., *The Administrative State in Canada* (Toronto: University of Toronto Press, 1982); G. Bruce Doern and Richard W. Phidd, *Canadian Public Policy: Ideas, Structure, Process* (Toronto: Methuen, 1983). For broad comparative critiques, see Theda Skocpol, "Bringing the State Back In," paper presented at Conference on State and Social Structures, New York, 1982; C. Ham and M. Hill, *The Policy Process in the Modern Capitalist State* (Brighton: Harvester Press, 1984); and Stephen Drasner, "Approaches to the State: Alternative Conceptions and Historical Dynamics," Comparative Politics 16 (January 1984): 223–46.
2. See André Blais, ed., *Industrial Policy* and Michael J.Trebilcock, *The Political Economy of Economic Adjustment*, volumes 44 and 8, respectively, of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
3. See Doern and Phidd, *Canadian Public Policy*. The approach used in this paper, with its initial focus on ideas, obviously builds on earlier work with which I have been associated. The topic here is even broader than the above book since it deals with politics as such rather than with public policy only.
4. These may be considered by some to be particular policy "paradigms." See Doern and Phidd, *Canadian Public Policy*, chap. 2.
5. Ibid., chaps. 7–12. See also Rianne Mahon, "The Unequal Structure of Representation," in *The Canadian State*, edited by L. Panitch (Toronto: University of Toronto Press, 1977), chap. 6.
6. See Keith Banting, ed., *The State and Economic Interests*, volume 32 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
7. Alan Cairns and Cynthia Williams, eds., *Constitutionalism, Citizenship and Society in Canada*, volume 33 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985), chap. 1.

8. See G. Wright, "Bureaucratic Politics and Canada's Foreign Economic Policy," in *Selected Problems in Formulating Foreign Economic Policy*, volume 30 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
9. This very basic notion is developed explicitly in G. Bruce Doern and Glen Toner, *The Politics of Energy: The Development and Implementation of the NEP* (Toronto: Methuen, 1985), but it is also implicit in other work, such as the writings on federalism by Garth Stevenson and John Richards and Larry Pratt. See also Frederick Fletcher and Donald Wallace, "Federal-Provincial Relations and the Making of Public Policy in Canada: A Review of Case Studies," in *Division of Powers and Public Policy*, volume 61 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
10. See Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagnation and Social Rigidities* (New Haven: Yale University Press, 1982); Thomas J. Courchene, "The Citizen and the State: A Market Perspective," in *Probing Leviathan: An Investigation of Government in the Economy*, edited by George Lermer (Vancouver: Fraser Institute, 1984), pp. 39–58; and William D. Coleman, "Canadian Business and the State," in *The State and Economic Interests*, volume 32 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
11. See Doern and Phidd, *Canadian Public Policy*, chap. 1.
12. See John Anderson and Morley Gunderson, eds., *Union-Management Relations in Canada* (Toronto: Addison-Wesley, 1982), and Mark Thompson and Gene Swimmer, *Conflict or Compromise: The Future of Public Sector Industrial Relations* (Montreal: Institute for Research on Public Policy, 1984).
13. Wright, "Bureaucratic Politics."
14. See Doern and Phidd, *Canadian Public Policy*, chaps. 5 and 12; M.Trebilcock, R.J. Pritchard, D. Hartle and D.N. Dewes, *The Choice of Governing Instruments* (Ottawa: Minister of Supply and Services Canada, 1982); and David R. Cameron, "The Growth of Government Spending: The Canadian Experience in Comparative Perspective," in *State and Society: Canada in Comparative Perspective*, volume 31 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
15. See Maslove, Prince and Doern, *Federal and Provincial Budgeting*, chap. 5.
16. The ratio of total government expenditure to Gross National Product is frequently used as an indicator of the size of government. It is important, however, to be aware that the numerator and denominator of this ratio are not really comparable. Total government expenditure includes a number of items — transfer payments to persons, public debt interest — which have no counterpart in GNP. Thus, it should be emphasized that use of the ratio of government expenditure to GNP only provides a rough-and-ready way of scaling the growth in the size of government spending to growth in the size of the economy. It does not measure the fraction of the economy's output absorbed or consumed by government.
17. The need to counteract this perception was among the factors that caused the rejuvenated Trudeau Liberals of 1980 to pursue an "anti-provincial" form of nationalism. See G. Bruce Doern, "Liberal Priorities: The Limits of Scheming Virtuously" in *How Ottawa Spends, 1982*, edited by G.Bruce Doern (Toronto: James Lorimer, 1982).
18. There are, of course, some aspects of the Reagan agenda, such as tax cuts and deregulation, which do constitute an attempt to lessen the role of government.
19. This discussion of provincial spending and taxation is drawn from Maslove, Prince and Doern, *Federal and Provincial Budgeting*, chaps. 7 and 8.
20. John L. Howard and W.T. Stanbury, "Measuring Leviathan: The Size, Scope and Growth of Governments in Canada," in *Probing Leviathan: An Investigation of Government in the Economy*, edited by George Lermer (Vancouver: Fraser Institute, 1984), p. 92.

21. For interpretations, see ibid., Appendix data on pp. 160–73, and Allan Tupper and G. Bruce Doern, eds., *Public Corporations and Public Policy in Canada* (Montreal: Institute for Research on Public Policy, 1981), chap. 1.
22. See E.C. Elford and W.T. Stanbury, "Mixed Enterprises in Canada," in *Canadian Industry in Transition*, pp. 6–7, and Ken Huffman, John Langford and W. Neilson, "Public Enterprise and Federalism in Canada," in *Intergovernmental Relations*, volumes 2 and 63, respectively, of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985). See also Stephen Brooks, "Direct Investment by the State: Mixed Enterprise in Canada," Ph.D. Dissertation, Department of Political Science, Carleton University, 1985.
23. Doern and Phidd, *Canadian Public Policy*, chap. 10.
24. See Doern and Toner, *Politics of Energy*, chaps. 1 and 2, and Paul Kemezis and E.J. Wilson, *The Decade of Energy Policy* (New York: Praeger, 1984), chaps. 1 and 2.
25. See David C. Smith, *Economic Policy Advising in Canada* (Montreal: C.D. Howe Institute, 1981), and Doern and Phidd, *Canadian Public Policy*, chaps. 13 and 18.
26. See Craig Riddell, *Work and Pay: The Canadian Labour Market*, and John Sargent, *Macroeconomic Performance and Policy Issues: An Overview*, volumes 17 and 19, respectively, of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
27. Doern and Phidd, *Canadian Public Policy*, chap. 18.
28. Doern and Toner, *Politics of Energy*, chaps. 1 and 2.
29. See Douglas A. Smith, "The Development of Employment and Training Programs," in *How Ottawa Spends, 1984*, edited by Allan M. Maslove (Toronto: Methuen, 1984).
30. Allan M. Maslove and Eugene Swimmer, *Wage Controls in Canada 1975–1978* (Montreal: Institute for Research on Public Policy, 1980).
31. In addition to McDougall's analysis, see John Richards and Larry Pratt, *Prairie Capitalism* (Toronto: McClelland and Stewart, 1980); V.C. Fowke, *The National Policy and the Wheat Economy* (Toronto: University of Toronto Press, 1957); and John McDougall, *Fuels and the National Policy* (Toronto: Butterworth, 1982).
32. See Philip Mathias, *Forced Growth* (Toronto: James Lewis and Samuel, 1971), and Sandford F. Borins and Lee Brown, *What Went Wrong: Government Enterprise Gone Awry*, study prepared for the Economic Council of Canada (Ottawa: Minister of Supply and Services Canada, 1985).
33. Richards and Pratt, *Prairie Capitalism*, and Doern and Toner, *Politics of Energy*.
34. Environment Canada, Brief to the Royal Commission on the Economic Union and Development Prospects for Canada, 1984, p. 3.
35. Ibid., p. 4.
36. See Michael Prince, "Whatever Happened to Compassion? Liberal Social Policy 1980–1984," in *How Ottawa Spends, 1984*, edited by Allan M. Maslove (Toronto: Methuen, 1984), pp. 79–121.
37. Cynthia Williams, "The Changing Nature of Citizen Rights," in *Constitutionalism, Citizenship and Society in Canada*, volume 33 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985), and T. Courchene, "Citizen and State."
38. Sutherland and Doern, *Bureaucracy in Canada*, chap. 4.
39. Schultz and Alexandroff, *Economic Regulation*.
40. Richard Johnston, *Public Opinion and Public Policy in Canada: Questions of Confidence*, volume 35 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
41. Ibid., chap. 4.
42. Ibid., chap. 4.

43. Ibid., chap. 4.
44. Olson, *Rise and Decline*.
45. Johnston, *Public Opinion*, chap. 5.
46. Ibid., chap. 5.
47. Ibid., chap. 5.
48. See Doern and Phidd, *Canadian Public Policy*, chap. 15, and G. Bruce Doern and Glen Toner, "Energy Budgets and Canadian Oil and Gas Interests," in *How Ottawa Spends, 1985*, edited by Allan Maslove (Toronto: Methuen, 1985), chap. 3.
49. See Donald G. McFetridge, "Commercial and Political Efficiency: A Comparison of Government, Mixed and Private Enterprise," in *Canadian Industrial Policy in Action*, volume 4 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
50. See, for example, Robert D. Tollison, "Rent Seeking," *Kyklos* 35 (4) (1982): 575–602, and in a broader context, Olson, *Rise and Decline*.
51. See Doern and Phidd, *Canadian Public Policy*, chap. 3.
52. See Thompson and Swimmer, *Conflict or Compromise*, and Sutherland and Doern, *Bureaucracy in Canada*, chap. 3.
53. See Richard W. Phidd, "The Agricultural Policy Formulation Process in Canada," paper presented to the Canadian Political Science Association Meeting, June 1980, and J.D. Forbes, R.D. Hughes and T.K.Warley, *Economic Intervention and Regulation in Canadian Agriculture* (Ottawa: Minister of Supply and Services Canada, 1982).
54. Maslove, Prince and Doern, *Federal and Provincial Budgeting*, chaps. 6, 7 and 8.
55. See Y. Rabeau, "Regional Stabilization in Canada," and D. Purvis and C. Smith, "Fiscal Policy in Canada: 1963–84," in *Fiscal and Monetary Policy*, volume 21 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
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60. See also Johnston, *Public Opinion*.
61. Richards and Pratt, *Prairie Capitalism*, pp. 328–29.
62. Doern and Toner, *Politics of Energy*, chaps. 12 and 13.
63. See R.W. Boadway and H.M. Kitchen, *Canadian Tax Policy* (Toronto: Canadian Tax Foundation, 1980), pp. 131–52.
64. Forbes, Hughes and Warley, *Economic Intervention*.
65. Doern and Toner, *Politics of Energy*, chap. 11.
66. See Maslove, Prince and Doern, *Federal and Provincial Budgeting*.
67. Robert Cairns, "Extractive Resources."
68. See David B. Brooks, *Zero Energy Growth for Canada* (Toronto: McClelland and Stewart, 1981); William Leis, ed., *Ecology versus Politics in Canada* (Toronto: University of Toronto Press, 1979); and T.F. Schrecker, *Political Economy of Environmental Hazards*, study prepared for the Law Reform Commission of Canada (Ottawa: Minister of Supply and Services Canada, 1984).

69. G. Bruce Doern, Michael Prince and Garth McNaughton, *Living With Contradictions: Health and Safety Regulation and Implementation in Canada* (Toronto: Queen's Printer, 1982), chap. 2.

70. See Douglas Hartle, *Public Policy Decision Making and Regulation* (Montreal: Institute for Research on Public Policy, 1980).

71. Maslove, Prince and Doern, *Federal and Provincial Budgeting*, chap. 4. Environmental cuts were noticeable in the early months of the Mulroney government's restraint measures. See *The Globe and Mail*, December 18, 1984, p. 1.

72. Schultz and Alexandroff, *Economic Regulation*, chap. 1.

73. For a critique of such policy "content" theories, see W. Jenkins, *Policy Analysis: A Political and Organisational Perspective* (London: Martin Robertson, 1978), chap. 3.

74. Sutherland and Doern, *Bureaucracy in Canada*, chap. 1.

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78. Wright, "Bureaucratic Politics".

79. See G. Sparks, "The Theory and Practice of Monetary Policy in Canada, 1945–83," in *Fiscal and Monetary Policy*, volume 21 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985). See also Phidd and Doern, *Politics and Management*, pp.245–51, and "Reluctantly at the Helm," *The Economist* (September 22, 1984): 5–68.

80. Maslove, Prince and Doern, *Federal and Provincial Budgeting*, chaps. 1, 2 and 10. This section draws on the conclusions of this study as set out in chap. 10.

81. Ibid., chap. 2.

82. Auditor General of Canada, *Annual Report* (Ottawa: Minister of Supply and Services Canada, 1984), chap. 1.

83. See G. Bruce Doern, "Auditor General Trying to Overstep Bounds in Petrofina Case," *The Citizen*, March 16, 1985, p. B3.

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85. Economic Council of Canada, *Connections: An Energy Strategy for the Future* (Ottawa: Minister of Supply and Services Canada, 1985), chap. 8.

86. Ibid., p. 128.

87. See Paul H. Weaver, "Regulation, Social Policy and Class Conflict," *The Public Interest* 50 (Winter 1978): 45–64, and W.T. Stanbury and Fred Stanbury, *Regulatory Reform in Canada* (Montreal: Institute for Research on Public Policy, 1982).

88. Schultz and Alexandroff, *Economic Regulation*, chap. 5.

89. See G. Bruce Doern, *The Politics of Risk: The Identification of Toxic and Other Hazardous Substances in Canada* (Toronto: Queen's Printer, 1982).

90. Saskatchewan Mining Association, Brief to the Royal Commission on the Economic Union and Development Prospects for Canada, 1984, p. 4.

91. See Schrecker, *Environmental Hazards*.

92. See Donald Dewees, "Evaluation of Economic Policies for Regulating Environmental Pollution," Regulation Reference Working Paper No. 4 (Ottawa: Economic Council of Canada, 1980), and Keith Acheson, "Economic Regulation in Canada: A Survey," in *Canadian Industrial Policy in Action*, volume 4 of the research studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).
93. Sutherland and Doern, *Bureaucracy in Canada*, chaps. 1 and 2.
94. Ibid., chap. 5.
95. See V. Seymour Wilson, *Canadian Public Policy and Public Administration* (Toronto: McGraw-Hill Ryerson, 1981), chap. 4.

The Politics of the Deficit

DAVID A. WOLFE

Introduction

As the Second World War was drawing to a close, the Government of Canada presented a policy paper to Parliament which outlined the economic policies it had adopted to avert a return to the conditions of the Depression. In *The White Paper on Employment and Income with Special Reference to the Initial Period of Reconstruction*, the government espoused an explicitly Keynesian economic approach to outline the policies that would be used to maintain steady economic growth in the postwar years. The cornerstone of this plan was a commitment to vary taxing and spending policies to ensure that they made the maximum contribution to the sustaining of high levels of employment and income:

> The Government will be prepared, in periods when unemployment threatens, to incur deficits and increases in the national debt resulting from its employment and income policy, whether that policy in the circumstances is best applied through increased expenditures or reduced taxation. In periods of buoyant employment and income, budget plans will call for surpluses. The Government's policy will be to keep the national debt within manageable proportions, and maintain a proper balance in its budget over a period longer than a single year.[1]

There is considerable debate as to how effectively countercyclical stabilization policies were implemented over the postwar period.[2] Nonetheless, for 30 years following the end of the war, the federal government remained committed in principle to the use of Keynesian fiscal policies to stabilize the economy. In the past decade this commitment has been seriously eroded. The relative size and rate of growth of the government's deficit have proven a major source of political controversy and

the current extent of disagreement over this issue recalls the conflict that it engendered in the mid-1930s. The consensus that prevailed during the postwar period has given way to a growing degree of uncertainty about many of the accepted Keynesian verities.

The re-emergence of budgetary deficits as a political issue coincided with the end of the long period of postwar growth in the mid-1970s and a secular trend toward increased deficits. There is obviously an integral link between these two developments, but the nature of that link is less certain than may at first appear. Although many Western industrial nations have incurred increased budgetary deficits, there are wide variations in the extent and source of these deficits. Some of the variance is undoubtedly accounted for by the different patterns of economic growth seen in these countries (a question that lies outside the scope of the present study), but political factors have also played a critical role. This study analyzes the nature of these factors and how they influence the way in which the deficit is treated as a political issue.

The concept of politics as used in this study is essentially concerned with the exercise of power in modern industrial societies. It incorporates both the normative dimension of politics, the role of ideas and values in shaping the exercise of power; and the social/institutional dimension, the different capacities of various social interests and institutions to achieve their goals in the political arena. Each of these dimensions of the politics of the deficit is explored in turn.

The Deficit in Perspective

Canadian Dimensions

Political debate about the deficit is clouded by the lack of an unambiguous definition of the term. In fact, there are three relevant measures of the deficit: the public accounts deficit, the net financial requirement, and the national accounts deficit. The *public accounts deficit* refers to the deficit created by the total revenues and expenditures of government departments and agencies. The *net financial requirement* of the government includes the public accounts deficit, but takes in non-budgetary loans and investments by the federal government, as well as deficits or surpluses recorded by special-purpose funds such as the unemployment insurance fund. The *national accounts deficit,* the measure generally preferred by economists (there is some debate here, however), is somewhat different from the other two measures. It records the increases in the net liabilities of the federal government, but does not include purely financial transactions that do not affect the government's liability position. Because deficits can be incurred by all three levels of government in the political system, it is important to distinguish between the federal government deficit and the deficit for the total government sector. The

national accounts deficit includes both sectors. For the purposes of this paper, therefore, reference will be made primarily to deficits calculated on the national accounts basis, for either the federal government or for the total government sector.[3]

The deficit can usually be broken down further into component parts, and such a breakdown may help us to understand the nature of the forces that give rise to it. At the simplest level, the deficit can be divided into two main components: the cyclical and the structural. The cyclical component of the deficit consists of that part produced by the gap between revenues and expenditures at the actual level of output in the economy and the amount of revenues and expenditures that would hypothetically exist at the full employment level of output. The structural component of the deficit results from the gap between the level of revenue generated by the tax system and other forms of government income, and the level of expenditures to which the government is committed. It constitutes the level of the deficit that would persist at the full employment level of output.[4]

The cyclical component of the deficit can be further subdivided into that part produced by the operation of automatic stabilizers in the revenue and expenditure structure of the budget, and that part produced by discretionary changes in fiscal policy in response to changing economic conditions. Automatic stabilizers include those elements in the government's budget which are most sensitive to cyclical changes in levels of economic activity, such as tax revenues that rise or fall due to the income elasticity of the tax system, and expenditures on items that are tied to fluctuations in the level of employment, such as unemployment insurance.

The classical Keynesian conception of the role of the deficit focussed primarily on its cyclical component. Keynes argued that deficits should be incurred in the cyclical downswings in economic activity — through discretionary changes in taxing and spending policies — as a necessary means to maintaining levels of employment and income. Conversely, he argued that as the pace of economic activity accelerated, and employment and income rose, governments should incur budgetary surpluses that would keep the rate of price increases in check. The deficits and surpluses incurred over the life of the business cycle would balance each other. Although the fit is somewhat imperfect, the statistical evidence on the historical experience in Canada indicates that this is largely what occurred from the end of the Second World War until the mid-1970s.

The data in Table 2-1 indicate that during the decades from the late 1940s until the mid-1970s, the federal government's budget balances (on a national accounts basis) tended to fluctuate between surpluses and deficits. This fluctuation occurred in response to changing economic circumstances and as a result of discretionary changes implemented in

fiscal policy. Taken over the entire period, the net deficit or surplus position tended toward zero.

These same developments can be looked at from the perspective of federal deficits as a percentage of gross national product. Toward the end of the Second World War, when the federal government was forced to borrow on a massive scale to finance the war effort, the federal deficit annually constituted well in excess of 20 percent of GNP. By the end of the 1940s, however, as the postwar expansion accelerated and government spending returned to more normal levels, the federal government surplus had risen to 5 percent of GNP. These surpluses were sustained throughout the boom years of the 1950s, despite the fact that the government began to increase its spending on social programs such as family allowances, old age pensions, unemployment assistance and hospital insurance. These surpluses are also remarkable in light of the steady reductions made in the high levels of taxation that had been used to finance the war effort. During the economic recession of the late 1950s and early 1960s, the federal government once again incurred a series of budgetary deficits, but never more than 2 or 3 percent of GNP. As growth resumed during the 1960s, the government's budget balance returned to a surplus position, where it remained until the early 1970s.

The steady growth in the size of the government deficit is a problem that originated in the mid-1970s. This problem coincided, not surprisingly, with a dramatic fall in the rate of economic growth from the levels that had prevailed in earlier decades. It also coincided with a persistent rise in the rate of unemployment from the more tolerable levels that Canada had previously experienced. The deficit clearly emerged as a major problem in 1975. In that year the federal government deficit on a national accounts basis was $3.8 billion. It has risen since then to its projected peak of $26.6 billion for 1984.[5] While the size of the federal deficit has grown steadily from 1975, this is not true for the deficit of the rest of the government sector. The remainder of the government sector, which includes provincial and local government, hospitals and the Canada and Quebec pension plans, has run a budgetary surplus in nine of the past ten years. These surpluses have to some extent offset the deficits at the federal level during this period, but not sufficiently to produce a surplus for the total government sector (Table 2-1).

The figures themselves do not reveal the extent to which the steady increase in the deficit has been accounted for by structural or cyclical factors. A number of recent studies have attempted to break down the current size of the deficit into these component parts. This process involves statistical estimates of what the level of the deficit would have been at the full employment level of economic output. As these attempts at statistical estimation invariably involve a number of economic assumptions (the most important being an assumption of what would constitute the full employment level of output in current circumstances),

the results of the various studies do not always agree. All the studies cited below do concur that a substantial proportion of the current deficit can be attributed to the deep recession experienced in the Canadian economy from mid-1981 to 1983.

The budget paper submitted to Parliament by the minister of finance with the April 1983 budget, entitled *The Federal Deficit in Perspective*, contained one such estimate. It made two different assumptions about the shifts that occurred in the underlying trend of the growth rate during the decade of the 1970s, and it presented estimates for assumptions based on both the higher and lower trend output. In both cases, the estimates indicate that cyclical fluctuations in the level of economic output were not a major factor in the growth of the size of the deficit from 1975 through to 1979. However, cyclical factors assumed a much greater importance in the period after 1981. The severe global recession that began in the middle of 1981 had a particularly harsh effect on the level of federal revenues and expenditures. The budget paper estimated that 60 to 80 percent of the $13 billion increase in the federal deficit in 1982 was attributable to the effects of the recession. Thus, the underlying structural deficit for 1982 was in the range of $9 to $12 billion. The study noted that while this finding accounts for a significant proportion of the deficit, the structural component remains substantial in its own right.[6] The Department of Finance's estimates of the cyclical component of the deficit are contained in Table 2-2.

Another attempt to estimate the cyclical component of the current federal deficit was made by John Bossons and D.P. Dungan of the University of Toronto. Using the FOCUS econometric model of the University's Institute for Policy Analysis, they devised estimates based on a full employment assumption. They adopted the 1979 level of output and employment as the trend level of economic growth for the economy. The authors estimated that the cyclical component of the federal deficit constitutes an even larger proportion than that found in the Department of Finance study. At 1979 levels of output, the federal deficit would have been $14.7 billion lower in 1982 and $18.4 billion lower in 1983.[7] Regardless of which set of projections one accepts, it is clear that a large component of the current federal deficit is the result of cyclical economic factors related to the severity of the global recession that began in 1981.[8] The existence of a cyclical component of these dimensions reflects the workings of the automatic stabilizers in the federal government's revenue and expenditure budgets. If we accept the more conservative estimates of the Department of Finance, there still remains a considerable gap between federal revenues and expenditures at the full employment output level to account for. Given that federal revenues and expenditures remained largely in balance until 1974, the clues lie in the changes in the composition of revenues and expenditures that have occurred since then.

TABLE 2-1 Budget Balances in Canada by Government Subsector 1940–84

	Federal Government		Provincial Government		Local Government	
	Millions of dollars	% of GNP	Millions of dollars	% of GNP	Millions of dollars	% of GNP
1940	−140	−2.1	31	0.5	42	—
1941	−27	−0.3	32	0.4	57	—
1942	−1,723	−16.8	96	0.9	61	—
1943	−1,943	−17.6	99	0.9	63	—
1944	−2,709	−22.9	77	0.6	64	—
1945	−1,832	−15.4	92	0.8	49	—
1946	−245	−2.1	93	0.8	15	—
1947	687	5.1	95	0.7	−19	—
1948	765	4.9	15	0.1	−58	—
1949	484	2.9	−58	−0.3	−83	—
1950	650	3.5	−4	−0.0	−92	—
1951	971	4.5	4	0.0	−149	—
1952	195	0.8	61	0.2	−199	—
1953	151	0.6	107	0.4	−175	—
1954	−46	−0.2	53	0.2	−279	—
1955	202	0.7	28	0.1	−270	—
1956	598	1.9	−44	−0.1	−282	—
1957	250	0.7	16	0.0	−285	—
1958	−767	−2.2	−50	−0.1	−261	—
1959	−339	−0.9	−13	−0.0	−249	—
1960	−229	−0.6	−213	−0.6	−228	—
1961	−410	−1.0	−281	−0.7	−128	−0.3
1962	−507	−1.2	−56	−0.1	−135	−0.3
1963	−286	−0.6	−99	−0.2	−198	−0.4
1964	345	0.7	−81	−0.2	−141	−0.3
1965	544	1.0	0	0.0	−367	−0.7
1966	231	0.4	−174	−0.3	−327	−0.5
1967	−84	−0.1	−334	−0.5	−337	−0.5
1968	−11	−0.0	−56	−0.1	−436	−0.6
1969	1,021	1.3	319	0.4	−542	−0.7
1970	266	0.3	−229	−0.3	−470	−0.5
1971	−145	−0.2	−470	−0.5	−515	−0.5
1972	−566	−0.5	−691	−0.7	−171	−0.2
1973	387	0.3	−102	−0.1	−485	−0.4
1974	1,109	0.8	652	0.4	−819	−0.6
1975	−3,805	−2.3	−1,756	−1.1	−568	−0.3
1976	−3,391	−1.8	−1,543	−0.8	−769	−0.4
1977	−7,303	−3.5	−734	−0.3	159	0.1
1978	−10,626	−4.6	749	0.3	−211	−0.1
1979	−9,131	−3.5	−131	−0.0	1,448	0.5
1980	−9,880	−3.3	−429	−0.1	−72	−0.0
1981	−6,984	−2.1	−204	−0.1	158	0.0
1982	−20,502	−5.7	−1,950	−0.5	−413	−0.1
1983	−24,457	−6.3	−2,210	−0.6		
1984	−26,600	−6.2	300	0.1		

Sources: Statistics Canada; Hon. Marc Lalonde, minister of finance, *The Fiscal Plan* (Ottawa: Department of Finance, 1984), pp. 50–51 for 1983, 1984.

TABLE 2-1 (cont'd)

	Hospitals		Canada/Quebec Pension Plan		Total Government Sector	
	Millions of dollars	% of GNP	Millions of dollars	% of GNP	Millions of dollars	% of GNP
1940	—	—	—	—	−67	−1.0
1941	—	—	—	—	62	0.7
1942	—	—	—	—	−1,566	−15.3
1943	—	—	—	—	−1,781	−16.1
1944	—	—	—	—	−2,568	−21.7
1945	—	—	—	—	−1,691	−14.3
1946	—	—	—	—	−137	−1.2
1947	—	—	—	—	763	5.7
1948	—	—	—	—	722	4.7
1949	—	—	—	—	343	2.0
1950	—	—	—	—	554	3.0
1951	—	—	—	—	826	3.8
1952	—	—	—	—	57	0.2
1953	—	—	—	—	83	0.3
1954	—	—	—	—	−272	−1.0
1955	—	—	—	—	−40	−0.1
1956	—	—	—	—	272	0.8
1957	—	—	—	—	−19	−0.1
1958	—	—	—	—	−1,078	−3.1
1959	—	—	—	—	−601	−1.6
1960	—	—	—	—	−670	−1.7
1961	−16	−0.0	—	—	−835	−2.1
1962	−8	−0.0	—	—	−706	−1.6
1963	−41	−0.1	—	—	−624	−1.4
1964	−24	−0.0	—	—	99	0.2
1965	30	0.1	—	—	207	0.4
1966	−14	−0.0	709	1.1	425	0.7
1967	16	0.0	887	1.3	148	0.2
1968	2	0.0	1,003	1.4	502	0.7
1969	4	0.0	1,113	1.4	1,915	2.4
1970	46	0.1	1,193	1.4	806	0.9
1971	−18	−0.0	1,278	1.4	130	0.1
1972	136	0.1	1,373	1.3	81	0.1
1973	−17	−0.0	1,469	1.2	1,252	1.0
1974	82	0.1	1,771	1.2	2,795	1.9
1975	77	0.0	2,003	1.2	−4,049	−2.4
1976	298	0.2	2,183	1.1	−3,222	−1.7
1977	635	0.3	2,238	1.1	−5,005	−2.4
1978	345	0.1	2,449	1.1	−7,294	−3.1
1979	491	0.2	2,693	1.0	−4,630	−1.8
1980	74	0.0	3,003	1.0	−7,304	−2.5
1981	−65	−0.0	3,250	1.0	−3,845	−1.1
1982	153	0.0	3,786	1.1	−18,926	−5.3
1983			3,220	0.8	−22,749	−5.9
1984			4,100	1.0	−22,300	−5.2

TABLE 2-2 Actual and Cyclically Adjusted Budget Balances Federal and Consolidated Government Sectors National Income and Expenditure Accounts Basis 1954–84

	Actual Balances (Surplus or Deficit [–])		Cyclically Adjusted Balances (Surplus or Deficit [–])		Actual balances (Surplus or deficit [–])		Cyclically Adjusted Balances (Surplus or Deficit [–])	
	Fed. govt.	All govts.	Fed. govt.	All govts.	Fed. govt.	All govts.	Fed. gov.	All govs.
	(millions of dollars)				(% of GNP)[a]			
1954	–46	–272	186	–17	–0.2	–1.0	0.7	–0.1
1955	202	118	118	–137	0.7	–0.1	0.4	–0.5
1956	598	272	84	–299	1.9	0.8	0.3	–1.0
1957	250	–19	10	–300	0.7	–0.1	0.0	–0.9
1958	–767	–1,078	–584	–883	–2.2	–3.1	–1.7	–2.5
1959	–339	–601	–150	–383	–0.9	–1.6	–0.4	–1.0
1960	–229	–670	178	–200	–0.6	–1.7	0.4	–0.5
1961	–410	–835	206	–107	–1.0	–2.1	0.5	–0.3
1962	–507	–706	–195	–307	–1.2	–1.6	–0.4	–0.7
1963	–286	–624	–60	–324	–0.6	–1.4	–0.1	–0.7
1964	345	99	316	76	0.7	0.2	0.6	0.2
1965	544	207	340	–39	1.0	0.4	0.6	–0.1
1966	231	425	–216	–159	0.4	0.7	–0.4	–0.3
1967	–84	148	–254	–54	–0.1	0.2	–0.4	–0.1
1968	–11	502	–159	308	–0.0	0.7	–0.2	0.4
1969	1,021	1,915	738	1,543	1.3	2.4	0.9	2.0
1970	266	806	526	1,180	0.3	0.9	0.6	1.4

Average 1961–70	111	194	124	212	0.1	0.0	0.2	0.2
1971	−145	130	−3	313	−0.2	0.1	−0.0	0.3
1972	−566	81	−669	−96	−0.5	0.1	−0.6	−0.1
1973	387	1,252	−583	−69	0.3	1.0	−0.5	−0.1
1974	1,109	2,795	−241	1,027	0.8	1.9	−0.2	0.7
1975	−3,805	−4,049	−3,827	−4,009	−2.3	−2.4	−2.3	−2.4
1976	−3,391	−3,222	−4,151	−4,277	−1.8	−1.7	−2.2	−2.3
1977	−7,303	−5,005	−6,836	−4,432	−3.5	−2.4	−3.2	−2.1
1978	−10,626	−7,294	−9,772	−6,233	−4.6	−3.1	−4.2	−2.7
1979	−9,131	−4,630	−8,773	−4,062	−3.5	−1.8	−3.3	−1.5
1980	−9,880	−7,304	−8,074	−4,538	−3.3	−2.5	−2.7	−1.5
Average 1971–80	−4,335	−2,725	−4,293	−2,638	−1.9	−1.1	−1.9	−1.2
1981	−6,984	−3,845	−5,423	−1,532	−2.1	−1.1	−1.6	−0.4
1982	−20,502	−18,926	−11,462	−6,257	−5.7	−5.3	−2.9	−1.6
1983	−24,457	−22,749	−13,433	−7,486	−6.3	−5.9	−3.2	−1.8
1984	−26,600	−22,300	—	—	−6.2	−5.2	−3.3	−1.4

Sources: Canada, Department of Finance, *Economic Review, April 1984* (Ottawa: Minister of Supply and Services Canada, 1984), Reference Table 53, and Hon. Marc Lalonde, minister of finance, *The Fiscal Plan* (Ottawa: Department of Finance, 1984), p. 56 for 1983–84.

a. Actual balances are taken as a percentage of actual GNP, while cyclically adjusted balances are taken as a percentage of cyclically adjusted GNP.

It has been suggested that a large part of the current deficit can be accounted for by the excessive growth of expenditures on social programs, yet the vast majority of these programs was introduced well before 1975. Although since 1975 there have been some marginal improvements to benefits, they are not substantial enough to account for the increase in the size of the deficit. The figures for expenditure growth reveal a simple pattern. With the introduction of the Anti-Inflation Program in 1975, the federal government made an explicit commitment to restrict the rate of increase of its expenditures to a level below the rate of increase in the gross national product. From fiscal year 1975–76 to fiscal year 1981–82, this commitment was kept. The ratio of total expenditures by the federal government to GNP declined from its peak of 22.9 percent in 1975–76 to 20.8 percent in 1981–82. Paradoxically, it was the reduction in the level of transfers to persons that accounted for most of this decline.

Those components of federal expenditure that did increase during this period were subsidies on imported crude oil and some categories of domestically produced oil, as well as public debt interest costs. It is only since 1981 that the rate of increase in federal government expenditures has grown faster than the rate of increase of GNP. Spending on employment-sensitive social programs has increased substantially because of the cyclical effects of the recession, as has spending on the Petroleum Incentives Program.[9] The conventional wisdom, which looks at the current size of the deficit and places the major portion of the blame for it on excessive social spending, seems to be seriously misguided.

If the explanation of the increase in the underlying structural deficit is not to be found in the growth of expenditures, then it must lie on the other side of the public accounts — the evolution of the revenue system. A substantial portion of the underlying structural deficit of the federal government can be accounted for by the discretionary tax changes introduced in the years since the comprehensive reform of the income tax in 1971. With the introduction of the lower corporate income tax and the two-year write-off for investments in the manufacturing and processing industries in 1972, a continuous series of cuts began in the personal income tax, the corporate income tax, and the sales tax and in the transfer of tax points to the provinces. In the budget presented to Parliament by the Clark government in December 1979, the minister of finance estimated that the amount of revenue foregone in the fiscal year 1980–81 as a result of discretionary tax changes introduced since 1972 amounted to $8.89 billion. (This figure excludes the indexation of the personal income tax, which amounted to an additional $7.5 billion).[10]

The federal budget paper on the deficit, issued in April 1983, estimated that by fiscal year 1979–80, as a result of these discretionary changes, the ratio of federal revenues to gross national product was 4.2 percent lower than it had been in 1974–75. Revenues rose slightly in the subsequent two fiscal years, largely because of the strong growth in personal incomes

and widespread changes introduced in the energy tax regime. By the fiscal year 1982–83, the ratio was still 2.7 percent lower than it would otherwise have been as a consequence of these discretionary tax changes.[11]

The cumulative impact of these discretionary tax changes is summarized in Table 2-3. Federal budgetary revenues were $9.825 billion lower in the fiscal year 1982–83 than they would otherwise have been (excluding the impact of the indexation of the personal income tax). Revenues foregone as a result of indexation amounted to an additional $15.015 billion. The discretionary tax changes introduced since 1972 account for a major proportion of the structural deficit, but they do not tell the full story of the changes in the revenue structure of the federal government. In 1979 and 1980, the Government of Canada published its *Tax Expenditure Account*, documenting the extent of its spending through the revenue system. These accounts include a number of measures that were introduced as part of the compromises made during the tax reform process of 1969–71, or which existed prior to 1971, but whose provisions were altered during the 1970s. Several of these measures are particularly noteworthy. The lower corporate income tax for small business constituted a tax expenditure of $1.2 billion in 1979; the non-taxation of one-half of capital gains resulted in $500 million in foregone revenue from the personal income tax and $300 million from the corporate income tax in 1980; the dividend gross-up and tax credit contributed $800 million in foregone revenue in 1980; and the tax saving resulting from contributions to registered pension and registered retirement savings plans cost the federal government $2.6 billion in 1980.[12]

There are two additional items worth mentioning. One amendment to the Income Tax Act allowed corporations to deduct interest on borrowed funds used to acquire shares in other corporations. It is impossible to estimate the full cost of this tax subsidy, nor has it been included in the *Tax Expenditure Accounts*, but its value is clearly considerable.[13] In the budget of April 1983, the minister of finance introduced a new measure, the Scientific Research Tax Credit, which he estimated would cost the federal government $100 million in foregone revenue in 1984. From the time the measure came into effect, January 1984, until June of that year, it is estimated by officials of Revenue Canada to have cost the federal government $900 million in foregone revenue. It is impossible to estimate the ultimate cost to the federal government of this measure.[14] No single tax measure accounts for the overwhelming proportion of the revenues foregone; rather, they are distributed evenly over a number of different measures. The implication is clear. A substantial proportion of the structural component of the current federal deficit is the result of discretionary tax measures introduced by the federal government after 1970. The politics of the deficit cannot be considered in isolation from the politics of taxation.

TABLE 2-3 Direct Budgetary Impacts of Major Discretionary Revenue Measures Introduced Since 1972

	Date Introduced	1982–83 Impact
		(millions of dollars)
Revenue Reducing Measures		
Two-year write-off for manufacturing machinery and equipment	May 1972	−500
Lower corporate tax rates for manufacturing	May 1972	−460
Clothing exempted from sales tax	Feb. 1973	
	Nov. 1974	−833
Personal income tax credit[a]	Feb. 1973	−2,250
Sales tax cut for building materials	Nov. 1974	−745
Personal investment income deduction[b]	Nov. 1974	−880
Investment tax credit[c]	June 1975	−755
Personal income tax point transfer to provinces (reflecting changes to financing of "established programs")	Jan. 1977	−2,580
Sales tax on gasoline and diesel fuel reduced[d]	March 1977	−330
3 percent inventory allowance[e]	March 1977	−280
Child tax credit	Aug. 1978	−1,160
General sales tax rate reduction[f]	Nov. 1978	−1,430
Multilateral tariff negotiation duty reductions	July 1979	−405
Personal income tax marginal rates reduced	Nov. 1981	−1,045
Subtotal		−13,653
Revenue Raising Measures		
Oil export tax/charge[g]	Oct. 1973	+405
Special excise tax on gasoline	June 1975	+405
Interest and dividends paid on term-preferred shares and income debentures given the status of bond interest[h]	Nov. 1978	
Corporate income surtax	April 1980, extended	+610
	Nov. 1981	+300
Petroleum and gas revenue tax	Oct. 1980	+1,610
Natural gas and gas liquids tax	Oct. 1980	+1,240
Indexation of alcohol and tobacco duties and taxes	Oct. 1980	+315
One-half capital cost allowance in first year[i]	Nov. 1981	+728
Incremental oil revenue tax	Nov. 1981	+95
Subtotal		+5,708

TABLE 2-3 (cont'd)

	Date Introduced	1982–83 Impact
		(millions of dollars)
All Other Measures		–1,880
Total		–9,825
Indexation of personal income tax exemptions and brackets	Feb. 1973	–15,015
Total including personal income tax indexation		–24,840

Source: Hon. Marc Lalonde, minister of finance, *The Federal Deficit in Perspective* (Ottawa: Department of Finance, 1983), pp. 53–54.

a. The tax cut was initially set at 5 percent of basic federal tax with a minimum of $100 and a maximum of $500. In November 1974, the minimum tax cut was raised to $150 for 1974 and $200 for 1975. In March 1977 the cut was increased by $50 per child. In October 1977, the minimum tax cut was again raised, to $300. In August 1978, the $50 per child increased was removed. The tax cut was restructured in the November 1981 budget, becoming a flat $200 per taxpayer, with any unused portion of the credit transferable between the spouses.

b. Beginning with the 1975 tax year, the deduction included both interest and dividend income.

c. The investment tax credit was originally set at 5 percent for specified investments made before July 1, 1977. It was enriched and extended in March 1977, and the basic rate was raised to 7 percent in November 1978. The credit was extended indefinitely in 1978.

d. The 12 percent tax on gasoline and diesel fuel was converted to specific rates in March 1977 and then converted to 9 percent ad valorem levies in April 1980. This latter change had little impact on revenue from this tax in 1980, since the specific rates were roughly equivalent to a 9 percent ad valorem levy.

e. The inventory allowance was introduced to enhance the cash flow of businesses by providing an offset to the distorting effects of inflation on inventory profits and, hence, on tax liabilities.

f. The general sales tax was reduced from 12 percent to 9 percent, with the exception of tobacco and alcohol products.

g. The oil export tax was introduced in October 1973. Revenues were shared on a 50/50 basis with the exporting provinces. The oil export charge became effective under new legislation in April 1974, and all revenue remained with the federal government. Effective November 1, 1980, one-half of receipts from the charge on crude oil exports have been paid to the provinces.

h. Except in limited circumstances, interest and dividends paid on new issues of income bonds or debentures and term or retractable preferred shares were to be treated as interest for tax purposes.

i. Only one-half capital cost allowance is to be permitted in the year assets are acquired. On average this rule results in the same capital cost allowance claim as does a system of exact prorating based on the number of days an asset was owned in the year.

International Comparisons

Although the recent growth in the size of the deficit at all levels of government in Canada seems dramatic, the record is not exceptional

when examined in an international context. By international standards, the government sector as a whole does not occupy an excessive proportion of the total economy. Comparisons between Canada and 19 other members of the Organisation for Economic Co-operation and Development (OECD) indicate that in the two decades from 1960 to 1980, the size of the public sector in Canada grew at a slower rate than that of every other country, with the exception of the United States. In 1980, public sector spending amounted to a smaller proportion of gross domestic product than spending in the other major industrial economies, with the exceptions of Japan and the United States.[15]

With respect to the size of the deficit itself, Canada's performance is no more exceptional. The figures in Table 2-4 indicate that over the period 1965 to 1980, the deficit of all levels of government in Canada was close to the average for that of individual nations. The same is true of the increase in the proportion of the budget deficit as a percentage of GNP. These same findings hold true for the most recent period, 1975 to 1981. During these years, the budget deficit of all levels of government averaged 2.1 percent of GNP, which was lower than that of the other major industrial countries with the exceptions of France and the United States. It was only with the full impact of the current recession in 1983 that the deficit of the total government sector reached 5.9 percent of GNP, which was larger than that of the other major industrial powers, with the exception of Italy.[16] Thus, in comparative terms, the growth of the deficit in Canada has not been exceptional until the most recent years. This comparison reveals more about the severity of the recession and its impact on Canada, than it does about the deficit.

The Deficit as Political Ideology

Theoretical Perspectives

There is little in this brief survey of Canada's postwar experience with deficits that would explain the change which has occurred in political discourse regarding the symbolic importance of the deficit. The full significance of this change can only be grasped when viewed in the context of the debate that occurred during the Depression decade. Essentially this debate, over the appropriate direction for economic policy during the Depression, was about the role of the state in a capitalist economy. The Depression raised great doubts about the continued viability of capitalism. Conservatives and socialists alike were convinced that its future was in doubt.

The conservative view, best represented in Lionel Robbins' book *The Great Depression*, argued that capitalism was being stifled by the steady encroachment of monopolistic organizations on the operation of the economy. As a result, the natural working of competitive markets — the

cornerstone of the private enterprise economy — was being impaired. Corporations, through agreements to maintain prices, restricted the available level of demand. Trade unions, through their attempts to oppose necessary wage reductions, prevented the restoration of equilibrium wage levels that would allow employers to increase production. Governments were propping up inefficient and unprofitable firms that contributed to the oversupply of markets. The imposition of tariffs and competitive foreign exchange policies restricted the flow of international trade and further inhibited the restoration of the competitive conditions necessary for sustained growth. The prescribed solution clearly called for a return to free market conditions, and the proper role for government in this context was to assist the free flow of international trade and to facilitate the workings of competitive markets.[17]

From the conservative perspective, there was little question about the appropriate role of fiscal policy in the Depression. The classical view of public finance was one which held that there was no difference between public budgeting and private budgeting. This view is best summarized by the conservative economists James Buchanan and Richard Wagner:

> Prudent financial conduct by the government was conceived in basically the same image as that by the family or the firm. Frugality, not profligacy, was accepted as the cardinal virtue, and this norm assumed practical shape in the widely shared principle that public budgets should be in balance, not in surplus, and that deficits were to be tolerated only in extraordinary circumstances. Substantial and continuing deficits were interpreted as the mark of fiscal folly. Principles of sound business practice were also held relevant to the fiscal affairs of government.[18]

The reasons for this simple dictum were obvious. A strict fiscal orthodoxy was necessary to ensure that present generations did not enrich themselves at the expense of future generations, who would be saddled with the burdens of the earlier generations' excessive debts. This principle was derived from the original work of Adam Smith. A second reason originated with the Swedish economist Knut Wicksell's work on public finance. Wicksell argued that the principles of sound public finance were an essential ingredient of a rational liberal democracy. Citizens could make intelligent decisions about current public expenditures only if they were certain that they would be forced to bear the burden of the tax bill for those expenditures. Wicksell believed that informed democratic choices required citizens to be fully aware not only of benefits of their decisions, but of costs. Deficit finance clearly undermines this principle, and by extension is inimical to the operation of democracy.[19]

During the Depression years, the classical conservative ideas of public finance came to be embodied in what was known as the Treasury view. This view was derived from the white paper written in 1929 by officials of

TABLE 2-4 The Size of Budget Deficits in Twenty Nations, 1965–80

	Budget Deficit of all Government as a % of GNP		Increase in Budget Deficit in All Government as a % of GNP
	Average, 1965–80	Average, 1979–80	1965–65 to 1979–80
Italy	6.6	9.0	6.3
Ireland	6.4	9.0	3.9
Switzerland	4.8	6.9	3.6
Greece	3.7	4.5	2.1
Belgium	3.3	7.3	6.1
Britain	3.2	4.4	1.8
Portugal	2.2	8.0	7.6
Germany	1.9	3.8	3.5
Netherlands	1.9	4.3	2.5
Canada	**1.7**	**3.4**	**2.4**
United States	1.5	0.4	−0.8
Austria	1.2	2.9	3.0
Japan	1.2	4.8	5.9
France	0.9	1.2	1.2
Spain	0.7	3.0	2.9
Denmark	0.0	6.3	7.6
Australia	−0.3	0.7	2.4
Sweden	−1.1	8.4	11.2
Finland	−2.2	0.4	1.2
Norway	−3.0	2.9	−0.2

Source: David R. Cameron, "Taxes, Spending and Deficits: Does GovernmentCause Inflation?" in *The Politics of Inflation and Recession*, edited by Leon Lindberg and Charles Maier (Washington, D.C.: The Brookings Institution, forthcoming), Table 9-13.

the British Treasury in response to Lloyd George's proposal to use a loan-financed program of public works to alleviate unemployment. The Treasury white paper argued that this policy course was ill-fated. The total fund of saving in the economy was limited, and excessive government spending on public works would merely reduce the amount available for other forms of investment, with no net benefit to the economy.[20] Over the course of the Depression, this view was embellished further. In 1931, the Treasury argued that continued borrowing by the government would call into question the stability of the entire British financial system.[21] When the Conservatives returned to power in the early 1930s, this view was echoed regularly in the public pronouncements of government leaders. It was backed by the argument that a balanced budget would promote a more rapid recovery by maintaining business confidence in the ability of governments to manage a healthy economy.[22]

The conservative view of public finance was by no means restricted to the United Kingdom; it was widely shared in other countries. The conservative view dominated public finance in Canada throughout the

Depression years, under both Conservative and Liberal governments. Government expenditures increased dramatically over the early part of the Depression in Canada, as the existing burden of fixed debt charges was compounded by a necessary increase in relief expenditures and a rise in the operating deficits of the railways. Simultaneously, revenues fell as a consequence of the drop in national income. The government responded by restoring a balanced budget through increases in tariff rates, as well as in personal and corporate income taxes and in sales tax. By 1936, budgetary revenues had returned to the same level that had prevailed in 1929, despite the 30 percent fall in national income that had occurred in the interim.[23]

This deflationary fiscal policy was justified in terms of the principles outlined above. According to E.N. Rhodes, the Conservative minister of finance during the early years of Depression, "the Government would be recreant in its duty if it failed to face its problems with determination, and at whatever sacrifice, fully meet its financial obligations, balance its budget, and preserve the 'national credit' in the eyes of an observant financial world."[24]

Socialists for their part also held to the conviction that the Depression represented a fundamental failing in the operation of capitalist economies. They interpreted the Depression as an indication of the inability of capitalism to continue to provide sustained levels of employment. John Strachey, in a series of powerful and influential books, applied Marx's labour theory of value to argue that the massive levels of unemployment resulted from the inevitable tendency of capital to substitute ever-higher amounts of capital-intensive machinery for labour in the productive process. This trend was the result of the rising pressure of wages on corporate profits. Ongoing technological innovations were bound to throw greater numbers of workers out of their jobs, and meliorative solutions would not resolve this inherent contradiction. Public works projects financed by government borrowing to create jobs would increase the demand for labour relative to the supply, bidding up the wage bill and thus undermining profitability. The only solution was a massive program of public ownership and comprehensive economic planning. Such a program, the socialists argued, would ensure that the benefits of technological innovation and the remaining employment were equally distributed among all members of society.[25]

In the midst of this ideological struggle, traditional liberal concepts of the relationship between state and economy seemed woefully outdated. The conservative view of the 1930s had taken over many of the traditional liberal tenets of the mid-19th century, particularly the Gladstonian concept of the role of public finance. Throughout the early 20th century, liberalism lacked a theory of state intervention that was appropriate to the reality of a modern industrial economy. Keynes' economic theories were predicated on a political philosophy specifically designed to

redress this deficiency in 20th-century liberalism. *The General Theory of Employment, Interest and Money* provided the ideological justification for a limited role for the state in contemporary capitalism, and steered clear of the political shoals of conservative laissez-faire on the one side, and socialist interventionism on the other.

Keynes' theory prescribed a precise technical solution to the crisis of capitalism, reconciling limited government intervention with the continued paramountcy of the market. In so doing, it reconciled the economic freedom essential to liberal democracy with the need for greater regulation of the economy. His prescription was the use of countercyclical fiscal policies to sustain stable levels of employment and income in a capitalist economy. The use of fiscal policy to maintain aggregate demand would ensure both adequate wage levels and continued profitability. Keynes' emphasis on the primacy of demand conditions for the maintenance of economic stability avoided the need for concern over the organization of production and supply. It thus undercut the conservatives' traditional preoccupation with inducements to saving, and the socialists' with public ownership. By emphasizing the importance of the macroeconomic domain of policy making, it eliminated the need to interfere with the microeconomic process of investment allocation and ensured that there was no need for a radical expansion of the public domain. Finally, the purely technical nature of his policy proposals seemed to be cast above the fray of traditional political battles. The theory thus blunted the ideological debate that had raged around the question of state intervention, and the countercyclical use of budgetary deficits emerged as the cornerstone of a rejuvenated political liberalism.[26]

The political consensus thus fashioned provided the foundation for macroeconomic policy throughout the postwar period in most of the advanced capitalist countries. The judicious timing of budgetary deficits to achieve countercyclical stabilization goals was an integral part of the overall policy mix, but Keynesianism was never restricted to merely a fiscal policy approach. The emphasis on the overall importance of aggregate demand as the motor of economic growth justified the improvement of social policies. This spending was legitimated, not as charity, but as "automatic stabilizers" built into the economy to sustain aggregate demand in periods of cyclical downturns. Keynesianism thus constituted a critical component of the overall mix of the policies that became associated with the postwar welfare state in the advanced capitalist countries.[27]

These Keynesian prescriptions were adopted as the guiding principles of Canada's postwar fiscal policy in *The White Paper on Employment and Income*, presented to Parliament in April 1945. The federal government did not embrace Keynesianism unreservedly, as W.A. Mackintosh, the author of the white paper and one of the early Canadian proponents of Keynesian ideas, has made clear. The white paper steered clear of the

more extreme versions of Keynesianism, such as that espoused by Sir William Beveridge in his book, *Full Employment in a Free Society*. It further noted that two specific features of Canadian political economy — the open nature of the economy and the federal structure of the state — necessitated modifications in the original Keynesian doctrines. Within these limitations, the white paper represented, in Mackintosh's words, "an honest attempt to set out simply and clearly the real context of employment policy in Canada."[28] As such, it provided the basis for a substantial degree of ideological consensus, for the next three decades, over the conduct of public finance.

This ideological consensus prevailed in Canada and most other advanced industrial countries until the onset of the stagflationary era in the early 1970s raised serious doubts in the minds of many academic economists and technical policy makers over the continued effectiveness of Keynesian policy solutions. As the aura of doubt spread, conservative and socialist critics began to challenge the prevailing ideological consensus. Many of these critics focussed on the growth of public expenditures and the secular upward trend in the deficit as the objects of their concern. However, as was the case in the 1930s, at the root of the issue is a broader concern about the appropriate role of the state in advanced industrial economies.

This concern has best been expressed by conservative economists James Buchanan and Richard Wagner. They argue that there is a fundamental difference between tax instruments and debt instruments as the source of government finance. Tax finance forces the electorate to place the burden of government expenditures squarely on its own shoulders. Debt finance allows the electorate to shift this burden onto the shoulders of future generations. Keynes was by no means the first economist to argue in favour of relaxing the strict rules of public finance in order to achieve specific policy objectives; but by shifting the emphasis to the macroeconomic effects of budgetary deficits, he managed to deflect many of the criticisms that might be directed at the strictly budgetary implications of his proposals.[29]

Politicians, particularly in the United States, were initially much more reluctant to adopt Keynesian principles than were the academic proponents. Because the old fiscal constitution of balanced budgets was deeply embedded in their consciousness, the politicians hesitated to subscribe to the new economic doctrines. The Keynesian campaign took almost three decades before it reached fruition, with the Kennedy/Johnson tax cut of 1964; but once the victory was achieved, the floodgates of fiscal irresponsibility were opened, and with devastating effects:

> Once democratically elected politicians, and behind them their constituents in the voting public, were finally convinced that budget balance carried little or no normative weight, what was there left to restrain the ever-present spending pressures? The results are, and should have been, predictable. . . . After the 1964 tax reduction, the "price" of public goods and

services seemed lower. Should we not have foreseen efforts to "purchase" larger quantities? Should we not have predicted the Great Society–Viet Nam spending explosion of the late 1960s?[30]

The real concern of economists like Buchanan and Wagner is that the interplay of political and economic facts in the post-Keynesian world has created conditions under which the expansion of the public sector becomes inevitable. Conservative economists place little faith in democratic electorates or in the political leaders they elect to office. The electorate cannot resist demanding public services when the relative cost of those services is declining, just as politicians cannot resist the temptation to buy votes with public services when the real cost is so low. The inevitable result is a steady expansion of the public sector, which undermines the efficient operation of competitive markets and, if financed through increases in the money supply, generates inflation and crowds private borrowers out of the capital markets.[31] In the view of contemporary conservatives, the world of Keynesian deficit finance has produced the exact result that their predecessors of the 1930s had predicted.

The fears of conservative economists have been echoed by sociologists, such as Daniel Bell, and political scientists. In his book, *The Cultural Contradictions of Capitalism*, Bell argues that the acceptance of Keynesianism undermined traditional notions of the distinction between the public and private sectors. Since the 1930s, the process of satisfying individual wants, previously left to the autonomous operation of the market, has become increasingly subject to political decision making. The allocation of goods and the satisfaction of wants are now clearly seen to be the results of the interaction of the power of different groups in the political arena. The dilemma for the public household is that there does not exist a mechanism such as market determined prices for deciding what proportion of the society's total resources should be expended on public goods. Keynes' economic theory undermined traditional notions of fiscal restraint. The absence of political values to prescribe the limits to public spending and deficit finance produced a condition of "government overload" in the 1970s. Governments are overloaded in terms of their administrative ability to cope with the growing array of programs they had introduced, and in terms of the availability of fiscal resources to finance the growing level of public expenditures.[32]

The neo-conservative position, expressed most eloquently by Bell, has been echoed in the Trilateral Commission's study, *The Crisis of Democracy*,[33] and in the writings of other political scientists and economists. The various authors share a fundamantal belief in some of the conservative ideas associated with the 1930s' Treasury view. They all take the current difficulties of the capitalist economies as the ultimate

vindication of the views held by Keynes' opponents during the Depression. The acceptance of Keynesian doctrines has led to an excessive expansion of the public sector and an excessive reliance on borrowed funds to finance this expansion; and ultimately, it has undermined the profitable operation of private firms.

The most authoritative critique of the postwar Keynesian experience has come from a report prepared for the Organisation for Economic Co-operation and Development by a group of eight economists headed by Paul McCracken. The McCracken Report represents the closest contemporary equivalent to the Treasury view of the 1930s. Because it carried behind it the full weight of the OECD, the report exerted a strong influence over the policies adopted in the late 1970s by the major industrial countries.[34]

The McCracken Report argued that three sets of factors contributed to the deterioration in the economic performance of the industrial countries in the 1970s. These were shocks to the economic system, basic errors in economic policy, and changes in fundamental relationships within the economic system. The category of shocks included the sharp rise in food and energy prices at the beginning of the decade as well as the collapse of the international regime of exchange and payments associated with the Bretton Woods agreements. The major policy error was the excessively expansionary monetary policies adopted in the early 1970s, which preceded the commodity price boom and stimulated the outburst of inflation from 1972 to 1974.

The report's analysis of the long-term change in fundamental relationships is most important for understanding the nature of its critique of Keynesianism. The experience of a prolonged period of postwar prosperity led to increased expectations, and to steadily rising demands for higher wage levels and for governments to maintain the policies that were perceived to have created the long boom.[35]

Intrinsic to the McCracken Report's discussion of both the policy errors and the long-term changes in fundamental relationships, is the belief that these are closely tied to constraints that exist on contemporary democratic governments. While the report did not focus primarily on budgetary deficits, it clearly viewed the excessive growth of the public sector as a source of concern. It suggested that the greater amount of revenues produced by the income elasticity of the tax system in a period of inflation allowed expenditures to increase at a faster rate than was consistent with public support. The fear of the authors was that public pressure for new programs and improved benefits would continue into the future. In a revealing passage that echoes the conservative views described above, the authors said:

> In fact, in terms of really controlling public expenditure, we consider that the problem is the lack of connection made by the public between benefiting from a service and bearing the cost of it. In this situation, experience seems

to be that the public can at one and the same time both demand additional public expenditure and resist the consequent tax increases. In these circumstances it is very difficult to determine what the level of public expenditures should be, but we would suggest that policies aim at improving communication between the payers and the beneficiaries for public services . . .[36]

The McCracken Report's influence on the thinking of Western governments, concerning the relationship between public expenditures and revenues, should not be underestimated. At the Bonn economic summit, convened a year after the report was released, the leaders of the major industrial powers accepted its recommendations in committing themselves to a concerted effort at expenditure restraint.

The attack on the Keynesian consensus has come not only from the right. Beginning with James O'Connor's pathbreaking work on the fiscal crisis of the state, a host of new Marxist analyses have interpreted the current crisis of the advanced capitalist economies as proof of the limits of Keynesianism. O'Connor argues that the steady expansion of the state during the 20th century has revolved around two basic functions that the state must perform in advanced capitalist societies: the accumulation function and the legitimization function. The accumulation function includes those activities designed to create or maintain the conditions under which the profitable accumulation of capital is possible. The legitimization function includes those activities designed to create or maintain the conditions necessary for social harmony. While these two functions are often mutually contradictory, the state cannot afford to ignore either. If the state employs its coercive forces openly to help one class accumulate capital at the expense of the middle and lower classes, it risks losing the basis of its political support and legitimacy. This is a fundamental condition of liberal democracy. If, however, the state fails to provide the required assistance for the accumulation process, it risks undermining the source of its own power — the surplus produced by the economy and the tax revenues derived from that surplus. The contemporary state in capitalist societies is then faced with competing pressures to increase its expenditures on items associated with both these functions.[37]

The pressure from these competing demands on the state leads inexorably to the creation of the fiscal crisis. The growth of state expenditure is tied to the degree of monopolization in advanced capitalist economies. The expansion of capital in the monopoly sector of the economy requires an ever-greater degree of socialization of the costs of investment. Although a larger proportion of the costs are socialized, the surplus produced in production continues to be appropriated privately. This dichotomy creates a structural gap between the state's spending requirements and its taxing capacity. Excessive taxation runs the risk of undermining the profitability of private enterprises and thus negating the benefits to be gained from the state's expenditures to promote accumula-

tion. The tax capacity of the state is further limited by the ability of corporations to shift their tax burden forward onto consumers, or backward onto wage earners. Alternative forms of direct or indirect taxation of wage and salary earners is increasingly constrained by political resistance, which takes the form of a tax revolt. The fiscal crisis thus becomes a structural inevitability for the advanced capitalist state.[38]

O'Connor's work has been profoundly influential for a broad range of recent socialist and Marxist writings. The dramatic growth in the deficits of advanced capitalist economies is seen as evidence that the limits of the Keynesian fiscal strategy have been reached. While the Keynesian welfare state was effective in helping to reconcile the conflicts between capitalism and liberal democracy for most of the postwar period, its possibilities have now been exhausted. Just as conservatives believe that the conflict must now be redressed by greater constraints on the play of democratic forces in order to restore the profitability of private enterprise, the socialists believe that the full flowering of political democracy can only occur with the imposition of effective controls on the decision-making process of private investment. The political wheel seems to have turned full circle, and the debates of the Depression decade have returned in full force. While elements of the original Keynesian consensus still prevail — witness the willingness of governments to incur deficits through the operation of automatic stabilizers — contemporary liberalism has not been able to fashion its successor in response to the challenges of the 1980s.

Two facts stand out as particularly significant in this brief summary of ideological discussions of the deficit. Most arguments about the appropriate size and role of deficits are in reality concerned with the appropriate relationship between the state and economy in advanced capitalism. At stake in this debate are political values much broader than the narrow technical effects of deficits on economic performance. A second concern is the way in which ideological views of the deficit overlook the tremendous variations among nations in their experience of deficits. As often happens, these ideological debates hide as much of the truth about the deficit as they actually reveal.

The Canadian Debate

The debate over the deficit in Canada reflects the same ideological perspectives outlined above. While the language of the Canadian debate has been couched in more narrowly economic terms, beneath the technical disputes lie the same fundamental conflicts over ideological values. The deficit re-emerged as an issue on the political agenda in 1975, the year in which the federal government incurred the first in its current string of successive deficits (Table 2-1). The debate was initiated in the context of growing political concern over the persistent rise in the rate of

inflation. In late 1975, the federal government rejected key elements of the Keynesian policy approach with the formal commitment to restrain the rate of growth of public expenditures below that of the GNP — part of the anti-inflation program — and with the adoption by the Bank of Canada of a strategy of monetary gradualism.[39] The question of the deficit was placed on the public agenda in the form of an open letter addressed to the prime minister from a number of the country's leading economists:

> There are, we believe, essentially three domestic causes of inflation: first is the growth of government deficits: federal, provincial and municipal. The combined effects of these deficits and the way in which they were financed were probably the most potent internal source of our rate of inflation. The Federal cash deficit may amount to over six billion dollars in 1975. During the same year, Ontario is expected to spend about two billion more than it will raise in revenues.[40]

This attack on government policy was challenged several months later in a paper published by the Conference Board in Canada. Robert Crozier, the senior economist of the board, responded to the criticisms of the open letter by arguing that, in fact, the period of inflation in Canada had been associated with a strong string of budgetary surpluses, not deficits. If anything, he suggested, inflation had been stimulated by the cost push effects of rising levels of taxation rather than the demand pull effects of excessive demand stimulation. Crozier pointed out that most of the deficit incurred in 1975 was as a result of the impact of the cyclical recession on government revenues and expenditures; ". . . the main point to be made is that these deficits did not emerge as the culmination of a long series of deficit spending by the government sector. They emerged because the automatic stabilizers have operated as they were designed to operate."[41]

The minister of finance, Donald S. Macdonald, immediately seized upon the Crozier paper to defend his government's past course of action. In a speech to the Investment Dealers' Association of Canada in June 1976, Macdonald denied that excessive government spending or deficits was responsible for inflation in Canada:

> Take, for example, the well-worn shibboleth that inflation in Canada has been caused by massive federal Government deficits because they led to an excessive increase in the money supply. The allegation is clearly contradicted by the facts. . . . As a recent Conference Board study pointed out, over the period from 1964 to 1974 the federal Government has a net surplus on a national accounts basis of $2.4 billion, rather than a deficit.[42]

The position taken by the Conference Board and the minister of finance was in turn subjected to a scathing criticism by Robin Richardson and Charles Loewen, partners in a Toronto investment firm, in a report

published in July 1976.[43] Richardson and Loewen argued that the critical factor in the link between the deficit and inflation was the net financial requirement of the federal government and the specific manner in which that requirement was financed. They rejected Crozier and Macdonald's use of the national accounts deficit as the significant measure. Richardson and Loewen argued:

> The federal Government has had over-all net financing requirements in every year since 1970. . . . Clearly the federal Government has run very large deficits which require financing, and the more money the federal Government needs, it would appear, the more it prints. . . . Unfortunately, there appears to have been a fairly direct relationship between changes in the federal Government's cash requirements and movements in the money supply since 1970, which in turn has contributed to inflation in the Canadian economy as a whole. . . . [44]

The debate went several rounds further, with Crozier publishing a second report in response to the criticisms of Richardson and Loewen, and Macdonald writing letters to *The Globe and Mail* in September and October, refuting the criticisms as well.[45] The most significant point in this debate was the essential agreement between Crozier and Richardson/Loewen on the question of government expenditures. Both sides agreed that the excessive growth of the public sector was at the root of the inflationary process and was undermining the long-term viability of the economy. Richardson commented favourably on the commitment made by the federal government to the continued restraint of its expenditure levels as part of the Anti-Inflation Program.[46] The underlying ideological dimension of this debate on the deficit clearly reflected the same normative concerns over the relative size and role of the public sector that were central to the more theoretical debates discussed above.

The public debate over the deficit cooled off somewhat over the next several years, partly as a result of the Liberal government's success in restraining the rate of growth of its expenditures. The budget deficit as a percentage of GNP continued to increase until 1978, but this was due to the discretionary changes in tax policy. Both the Conservative and Liberal governments of 1979 and 1980 were committed to deficit reduction, and as the data in Table 2-1 indicate, fiscal policy was oriented strongly in this direction. The situation, however, changed dramatically with the onset of the world recession in mid-1981. The federal deficit for 1982–83, which was forecast at $6.56 billion (on a national accounts basis) in the November 1981 budget, mushroomed to $19.8 billion by the time of the next budget in June 1982.[47]

Business reaction was swift and strong. The deficit was described as a bombshell that had sent bond prices reeling. The deficit-sensitive capital markets feared that they would have difficulty accommodating the increased demand for funds generated by the government's high borrow-

ing requirements and that the increased competition for available savings would maintain the upward pressure on interest rates.[48]

A year of deep recession moderated these concerns somewhat. By the time the next budget was brought down, in April 1983, the capital markets were reassured that they would be able to handle the huge financing requirements. Concern had shifted, however, to the implications of the projected deficits over the coming five years. The large investment dealers, such as Pitfield Mackay Ross and Midland Doherty, warned that the high level of the deficit was becoming institutionalized and that the government would begin to crowd the private sector out of capital markets as the recovery took hold and private borrowings resumed.[49]

During the first round of public hearings held by the Royal Commission in the fall of 1983, this concern was expressed in the briefs of many financial institutions and other business organizations. Two of these briefs stand out as representative of this viewpoint. Investment dealers Burns Fry, Ltd. devoted much of their brief to the future problems of capital formation in the Canadian economy and the threat posed by continued high government financing requirements. The brief noted that cyclical deficits resulting from the operation of automatic stabilizers were not a problem if they proved to be self-liquidating under recovery conditions. However, long-term structural deficits which threatened to persist after the recession would undermine the ability of private investors to raise the capital investments necessary to sustain a recovery. The result would be upward pressure on interest rates, which would choke off the expansion, or monetization, of the debt by the Bank of Canada, and would create a new inflationary spiral. Burns Fry noted that the increased deficit was associated with an upward trend in the level of government spending; echoing conservative economists such as Buchanan and Wagner, the authors of the brief observed, "Borrowing rather than taxation has proved to be the path of least resistance in financing the relentless growth of government spending." The brief concluded that stringent revenue and expenditure discipline was the only effective answer to the government's debt problem.[50]

The brief submitted by the Bank of Montreal also gave detailed treatment to the question of the deficit. The brief systematically assessed some of the major arguments concerning the economic effects of large deficits. It discounted the notion of a direct correlation between the incidence of deficits and the expansion of the money supply, saying there was no evidence from either Canada or the United States to show that this had been the case. In considering the argument about crowding out, it noted that, over the long run, there was considerable stability in the total debt to GNP ratio for the United States. Increases in government debt relative to GNP tended to imply a corresponding reduction in the ratio of private sector debt to GNP. The correlation was not as

straightforward in Canada, because of the easy access of Canadian borrowers to offshore capital markets; but the higher cost of servicing the foreign debt put downward pressure on the exchange value of the dollar, thus cancelling out the benefits of the lower interest rates offshore. Either way, real interest rates would be pushed up, hampering business investment and retarding the rate of economic growth, and making the task of future stabilization policy even more difficult.[51]

The concerns raised by Burns Fry, Ltd. and the Bank of Montreal were echoed by Richard H. Thompson, chairman and chief executive officer of the Toronto Dominion Bank, in a speech that received extensive coverage. Mr. Thompson warned that continued high deficits threatened to reduce personal spending, lower business investment, maintain the drain on the balance of payments and undermine the exchange value of the dollar. He cautioned that it was not too late to deal with the deficit, but that without firm steps to control it, there would be problems ahead. "A point may be reached", he said, "where lenders lose all confidence in the ability of governments to manage their finances. Taxpayers may rebel at the notion of paying ever-higher taxes just to repay the debts of an earlier generation. In either case, the threat that money will be printed to inflate the deficits away becomes very real."[52]

Many of the positions taken in the debate over the deficit of recent years have echoed the arguments of the conservative theorists discussed earlier: the problem of crowding private investors out of the market; long-run declines in the rate of growth; unrestrained public sector growth financed through high levels of borrowing; and the transfer of the real cost of current public consumption to future generations.

Although these views reflect the majority of the financial community, there are other opinions. In a paper presented to a conference organized by the Ontario Economic Council, John Grant, director and chief economist of Wood Gundy, Inc., asserted that the deficit in Canada had not contributed to crowding private borrowers out of the capital markets, nor had it been responsible for the high levels of inflation in the 1970s. In support of his first point, he cited figures which indicated that massive amounts of foreign capital had been raised by investment firms for their clients. The current real interest premium being extracted from the government on its borrowings by the capital markets was proof that the strategy of debasing the value of bonds would not be tolerated. Mr. Grant suggested that while high levels of foreign borrowing may have put downward pressure on the exchange rate, the effect was not nearly commensurate with the concern expressed in the financial markets. On the basis of this evidence, he concluded that " . . . participants in Canadian capital markets are unnecessarily paranoid at the moment."[53]

The loudest voices in the debate on the deficit have undoubtedly been those of the numerous representatives of the financial sector, some of whom have been cited above. The opposing voices, articulating a

socialist perspective on the deficit, have been much weaker. One notable paper by a labour economist employed O'Connor's theory of the fiscal crisis to analyze the expansion of the deficit in Canada, but this has been the exception.[54] In general, labour unions and social agencies have used modified versions of a Keynesian analysis in arguing that the size of the current deficit should not be used as an excuse by governments to undermine their commitment to full employment or to the existing level of social services.

A number of briefs presented to this Commission maintain that the current size of the deficit is largely the result of the failure of economic policies to maintain steady rates of growth, while other briefs suggest that a more active role for social policy is a prerequisite to assist the country through the difficult period of economic adjustment that lies ahead. In its brief, the Ontario Public Service Employees Union (OPSEU) emphasizes the important role that government capital expenditures play in the fostering of a strong rate of economic growth. The level of the deficit is largely the result of the cyclical downturn in the economy, OPSEU maintains, in a period in which capital expenditures, particularly by the federal government, have been falling relative to current expenditures. (Many of the government's tax expenditures in support of business investment should properly be treated as investments rather than current expenditures which contribute to the deficit.) The current level of the deficit will contribute to the long-run expansion of the economy through the multiplier effect. "It flies in the face of all the evidence to suppose that the private sector can be relied on alone to provide productive and lasting jobs for all, without government participation."[55]

The contrast between the positions taken in the current debate over the deficit reveals that what is at stake is an underlying ideological disagreement over the appropriate size and role of the state in the contemporary economy. Representatives of financial institutions fear that the excessive expansion of the public sector by deficit finance will either reduce the scope for private enterprise through the crowding-out effect, or, through inflation, will debase the value of private holdings of government bonds. Social agencies and labour unions see the deficit as a positive instrument to aid the government in sustaining its postwar commitment to a full employment policy and to the provision of necessary social services. In spite of the many criticisms levelled against Keynesianism in recent years, the attachment to it remains particularly high in this sector of Canadian society.

Political Interests and the Deficit

The major shortcoming of the ideological debate about budgetary deficits is its failure to take account of the range of experience with deficits among the advanced industrial countries. The actual occurrence of

deficits has varied widely among these countries and seems to be linked to a number of economic and political variables. In part, overall levels of economic performance have had an important effect on the incursion of deficits. More significantly, a number of key political variables appear linked to the experience with deficits. Although in recent years there has been a substantial increase in the comparative politics literature analyzing the relationship between economic and political variables, the number of studies that focus directly on the relationship between politics and the deficit is relatively limited.

The results of these studies indicate that the tendency for governments to incur deficits, and the way in which governments react to the incidence of deficits, is closely linked to the nature of partisan politics within the individual countries. The extent of control of government by leftist or rightist parties accounts for a substantial degree of the cross-national variations that are observed. This variable in turn is strongly affected by the underlying relationship between the organization of social interests and political parties.

The findings of a study by Walter Korpi and Michael Shalev, concerning the political and social variables that affect the incidence of industrial unrest, contain useful insights for the study of the politics of the deficit. The authors note a strong relationship between the extent of continuous control of government by leftist parties and the degree of harmony in industrial relations. The incidence of industrial strife is directly affected by the level and nature of government spending programs, themselves the products of the partisan control of government. The presence of leftist parties in government is in turn closely tied to a number of social factors, including the degree of unionization of the labour force, the degree of working class mobilization, the predominance of industrial unions within the labour movement, the degree of unity within the labour movement, and the strength of the ties between the labour movement and leftist political parties.[56]

Using these findings, David Cameron examines the major industrial nations and considers the effect of partisan control of the government on the origins of the deficit. Cameron's findings indicate a very high correlation between the partisan control of the government and the level and rate of increase of government expenditure. Control of the government by leftist parties has had a substantial effect on both the level and the composition of government spending, with those countries having the highest incidence and most extended duration of leftist governments experiencing the greatest increase in spending on social programs. To some extent, government attempts to compensate for declining rates of economic growth account for the growth of social spending since the mid-1960s. Even after this variable is taken into account, however, the partisanship of governments explains a substantial proportion of the difference in levels of social spending.[57]

Cameron analyzes the relationship between these factors and the incidence of deficits among the major industrial economies. As the data in Table 2-4 indicate, most of these governments were in a deficit position in the period after 1965, and the size of the deficit increased in the period up to the early 1980s. Contrary to most popular expectations, and to most of the ideological analyses outlined above, there is not necessarily a direct correlation between high levels of public expenditure and the size of the deficits incurred. The more significant variable in predicting the size of the deficit is the relative taxing capacity of the different governments. The data in Table 2-5 demonstrate that there are significant differences in revenue capacity among the OECD nations. Cameron's statistical analysis of the source of these variations shows that they are produced by the partisan political complexion of the individual countries. Countries that have experienced stable and enduring leftist governments in the period since 1965 have higher levels of taxation than countries in which conservative governments have prevailed. The variations in the average size of the budget deficits are closely related to the variations in taxing capacity. There is an inverse relationship between the level of taxation and the size of the deficit.[58] On the basis of these observations, Cameron concludes:

> Evidently, enduring control of government by leftist parties allows nations to enjoy the benefits of a large and expanding public economy — for example, relatively generous provision of social security benefits, social assistance, and unemployment compensation — while avoiding whatever macroeconomic costs are produced by large deficits! How? By imposing relatively high taxes — especially taxes on personal incomes and wealth. In contrast, nations in which non-leftist parties usually govern are more likely to experience a smaller, more miserly public economy (especially when conservatives dominate government) *and* a chronic "fiscal crisis" reflected in relatively large deficits (especially when centrist and Christian Democratic parties dominate government). Why? Again, in large part because such parties — in particular, those which are conservative — are more reluctant to levy high taxes, especially taxes on income and wealth which, by definition, fall most heavily on their upper income supporters.[59]

Cameron's findings concerning the political determinants of the tax structure receive substantial confirmation from the results of another study, by Manfred Schmidt. Schmidt studied the factors that contributed to variations in the taxing capacity of the Western industrial democracies from 1950 to the mid-1970s. His findings are more refined than Cameron's, in that Schmidt distinguishes three periods in the postwar growth of the tax state.

In the first period, the 1950s, the growth of taxing capacity was influenced by three factors: the degree of external dependence of the economy (as individual economies became more integrated into the world economy in the early postwar years, a greater degree of state

intervention was required to control the repercussions of that enhanced integration);[60] the overall rate of economic growth, which provided a broader base from which to extract government revenues; and left-wing control of the major offices of the state.[61]

The second period, 1960 to 1975, witnessed the most considerable expansion of the taxing capacity of government in these nations. In this period, the political composition of governments and the relative openness of the economy continued to be significant factors, but they were supplemented by another set of intervening variables. Of major importance were the degree of cohesion among rightist political parties, the distribution of power between the leftist and rightist parties, and the relative strength of the organized labour movement. In countries in which there were organizational and ideological splits among the parties of the right, fewer political impediments obstructed the expansion of the tax system to finance a higher level of public expenditures on health, welfare and educational programs.[62]

In the most recent period, which covers the economic recession from the mid-1970s onward, the findings are clouded by the impact of lower rates of growth on government revenues. When this cyclical effect is controlled, the findings are very similar to those for the two earlier periods. The growth of the tax state continued to be much higher under social democratic governments, or in situations in which there was an even distribution of power between the leftist and rightist parties. In countries dominated by political parties of the right, increases in tax revenues were distinctly lower than would be expected on the basis of rates of economic growth.[63]

The major findings of the literature on the comparative politics of deficits, taxing and spending are substantially different from what one would be led to expect from the more ideological approaches to the subject. Paradoxically, the countries that have run the largest deficits, and the ones in which deficits have emerged as the most significant political issue, are the ones where centrist or right-wing governments have predominated in much of the postwar period. Because of the political constraints imposed upon them by their own electoral constituencies, these governments have been less able than left wing ones to implement the tax policies necessary to finance existing levels of expenditure.

This finding is quite consistent with the statistical evidence that was presented at the beginning of the paper, concerning the source of recent Canadian budgetary deficits. Although a large proportion of the Canadian deficit has been caused by cyclical economic factors, most of the remainder results from the failure of governments to balance their revenue-raising capacity with the growth of public expenditures. Canada certainly fits the case suggested by David Cameron, in that the federal government has been dominated by a centrist government for most of

TABLE 2-5 Total Tax Revenue As Percentage of GDP

	1965	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Australia	24.41	24.94	26.51	28.53	29.09	29.64	29.63	28.56	29.65	30.69	31.55	30.97	—
Austria	34.55	36.77	37.03	38.07	38.61	38.48	39.13	41.47	41.15	41.19	42.54	41.08	41.00
Belgium	31.21	37.04	37.99	38.94	41.82	42.32	43.84	45.07	45.63	44.90	45.44	46.65	—
Canada	**25.94**	**31.80**	**31.30**	**33.90**	**32.93**	**32.51**	**31.80**	**31.49**	**31.38**	**32.66**	**34.74**	**34.85**	**35.07**
Denmark	29.90	42.87	42.39	44.22	41.35	41.55	41.99	43.38	44.76	45.36	45.26	43.97	46.12
Finland	30.13	33.81	34.51	33.70	36.15	39.94	39.50	36.41	34.89	35.14	36.82	36.60	36.45
France	34.97	35.30	35.66	36.33	37.44	39.36	39.42	39.50	41.13	42.69	42.95	43.72	44.07
Germany	31.60	34.75	36.29	36.44	35.95	34.36	38.01	37.73	37.47	37.75	37.32	37.27	37.19
Greece	20.58	24.60	23.18	23.99	24.64	27.27	27.59	27.93	27.74	28.64	29.22	31.92	—
Ireland	26.03	31.00	31.20	31.67	32.09	35.64	34.59	33.07	33.10	36.51	38.44	39.57	40.55
Italy	27.25	28.53	26.28	28.32	28.98	30.27	30.89	31.26	30.22	32.87	33.74	38.27	—
Japan	17.75	20.72	22.47	23.01	21.01	21.90	22.47	24.24	24.81	25.93	26.86	27.21	—
Luxembourg	30.48	32.03	31.48	32.43	36.70	36.23	38.78	39.51	35.42	36.33	34.12	37.69	40.17
Netherlands	35.48	42.49	43.73	44.39	45.80	45.43	43.97	44.58	44.96	45.83	45.47	45.47	47.02

New Zealand	24.55	26.58	28.18	30.75	30.05	30.12	32.70	30.76	30.89	31.49	32.78	33.63	—
Norway	33.22	44.79	45.23	44.71	44.82	46.16	47.20	46.53	45.68	47.05	48.49	47.77	46.55
Portugal	18.46	22.54	21.99	22.52	24.79	26.91	27.39	26.45	26.10	29.27	31.11	30.82	33.02
Spain	14.73	18.37	18.98	18.24	19.60	19.61	21.54	22.88	23.44	24.16	25.24	25.33	24.50
Sweden	35.68	42.59	41.73	42.87	43.95	48.34	50.77	51.22	49.93	49.57	51.31	50.26	50.67
Switzerland	20.71	23.91	26.27	27.31	29.61	31.30	31.63	31.58	31.08	30.78	30.28	30.93	—
Turkey	14.93	19.08	19.60	17.91	20.67	21.03	21.61	21.26	20.78	19.07	19.29	20.11	23.67
United Kingdom	30.79	33.95	31.87	35.28	35.96	35.59	35.27	33.69	33.41	36.04	37.35	39.60	38.28
United States	26.51	29.63	29.70	30.22	30.18	29.29	30.30	30.21	31.32	30.60	31.24	30.46	—
OECD Total	26.95	31.22	31.46	32.34	33.14	34.05	34.78	34.73	34.56	35.41	36.16	36.77	—

Source: Statistics Canada and OECD, *Revenue Statistics of OECD Member Countries,1965–1983* (Paris, 1984), Tables III. 3 and IV. 109.

the postwar period. A closer examination of the politics of taxing and spending in the past decade suggests that the policies adopted by the federal government in Canada parallel those of other centrist and rightist governments.

The key to the success of the centrist Liberal government that served through most of the postwar period was its ability to balance the competing claims of the broad political constituencies from which it drew its electoral support. From its wartime experience of effectively managing the country's industrial mobilization, the Liberal party emerged with a high degree of support among people representing the nation's business class. Many of them had witnessed the positive benefits of the government's role directly in their capacity as "dollar-a-year" men. Furthermore, the innovative program of social reform that the Liberals adopted toward the end of the war, and pursued in hesitating fashion in the postwar years, provided assurances to the broad base of the population that the benefits of economic growth would not be limited to the holders of corporate power. As Reg Whitaker has argued, the key to the Liberals' electoral hegemony was the ability to balance this set of competing concerns:

> The Liberal party was operating in an environment in which two sometimes contradictory forces were at work in shaping the party's role. On the one hand, the party had to finance its operations as a party as well as manage a capitalist economy as a government, both of which left it vulnerable to the demands of the corporate capitalist world. On the other hand, the party had to get votes, which left it vulnerable to the demands of public opinion. . . . The Liberal party demonstrated superior skill at calling in one of these forces to redress the balance when the other became too dominating.[64]

The strategy seemed to fail in the federal elections of 1957 and 1958, as the Liberals were defeated decisively by John Diefenbaker's Progressive Conservative party. The electoral defeat set in motion a critical process of reappraisal within the party, particularly among a younger generation of party activists. Their feeling was that the party had lost track of the appropriate balance and its policy orientation had shifted too far to the right during the last years of the St. Laurent administration. A recovery of the reforming spirit that had guided the Liberals through the early postwar years was required to improve the party's electoral prospects. The call for a renewed spirit of reform was captured best in several of the papers presented to the Study Conference on National Problems sponsored by the National Liberal Federation at Queen's University, in September 1960.

The Kingston Conference was organized at the request of party leader Lester Pearson. Two papers presented to the conference — one by Maurice Lamontagne and one by Tom Kent — epitomized the call for a new policy orientation. Kent's paper (later criticized by prominent

businessmen for leaning too far toward socialism) presented an assessment of the major accomplishments of social reform in the period from the Great Depression to the late 1950s, and of the philosophy behind them. Kent observed that the pace of reform had slowed dramatically in the conservative decade of the 1950s, but that by no means was the agenda of reform complete. The paper outlined a new philosophy of social security that could inspire the needed reforms. Social security was defined as the provision by the state of income to various groups of people who could not earn an adequate standard for themselves. This philosophy recognized the essential interdependence of modern industrial societies and the mutual responsibility of all members of society for their fellow members. Kent acknowledged that, underlying this view of social security, was a philosophy regarding the appropriate role of government in advanced industrial society:

> The role of government in our society has increased, is increasing and cannot be reduced; on the contrary, it will — at least for the short way in the future that we can foresee — go on increasing. . . . The development that is relevant to social security is not a change in the organization of production but the increase of collective, as opposed to private, consumption.[65]

Kent outlined the reforms needed to implement his philosophy of social security. They included the introduction of medical insurance to complement the program of hospital insurance created in the late 1950s; a program of sickness insurance; an improved unemployment benefits scheme, which would be sensitive to national variations in the rate of unemployment; improved retraining programs for the unemployed; the introduction of measures to stimulate the relocation of capital to depressed regions of the country; urban renewal programs; the construction of public housing; better support for the education system; improved programs to deal with hard-core welfare cases; and improved levels of foreign aid.[66] In his role as senior policy advisor to Lester Pearson, and with strong support from the progressive wing of the party, Kent's proposals virtually became the policy agenda of the Liberal governments of the 1960s. The marked shift to the left in party policy under Pearson angered Liberal supporters in the business community, who felt that the traditional liberalism of King and St. Laurent was being abandoned.[67]

The increase in public expenditures during the 1960s also resulted partly from the perceived limitations of Keynesian demand management policies. During the recession of the late 1950s and early 1960s, concerns were expressed over the inability of Keynesian policies to resolve the problems of regional disparities and structural unemployment. Critics argued that the demand-oriented policies were inadequate to deal with the underlying causes of regional underdevelopment and the structural imbalance between the supply of, and the demand for, labour, which

were at the root of the higher rates of unemployment. The early reports of the Economic Council of Canada argued the need for more supply-oriented policies. The Pearson government responded to this call with the introduction of the new supply management policies, such as the various regional development incentives and a greater emphasis on vocational training and manpower policy, culminating in the establishment of the Department of Manpower and Immigration. The additional resources directed toward these new policy problems contributed to the overall increase in government expenditures during the 1960s.[68]

The emphasis on redistributive and supply-oriented policies seemed to be accentuated during the early years of the Trudeau government, to the continued dismay of business interests. The protracted effort at comprehensive tax reform, which followed closely after a decade of major social reforms, crystallized the growing dissatisfaction among the business community with the perceived leftward drift of the Liberal party. The whole experience left relations between the Liberal party and its business supporters severely strained.[69]

Although the tax reform package legislated in 1971 produced a considerable broadening of the tax base, the political cost of its acceptance was the inclusion of a number of major concessions to its opponents. These included the one-half taxation of capital gains; the introduction of the dividend tax credit (a far cry from the Carter Commission's original call for the full integration of the personal and corporate income tax); the eligibility of the Canadian-controlled private corporation for the small business corporate tax rate; and the allowance of deductions for interest on money borrowed to acquire the shares of another corporation. Also notable was the item contained in the June 1971 budget, allowing a sizable increase in the deductions for registered pension and registered retirement savings plans.[70] This list includes some items which, by the time of publication of the tax expenditure accounts in 1979 and 1980, were among the major sources of foregone revenue for the federal government. In the words of J. Harvey Perry, a former member of the Carter Commission:

> It is an understatement to say that the final results fell far short of [the] goals. The grand designs crumbled under concerted taxpayer pressure. . . . The federal tax system is now so riddled with special features that one would almost conclude that the reverse of the commission's plea for neutrality had been followed . . . [71]

In spite of these concessions, the Liberal government recognized the need to mend political fences with the business community. The appointment of John Turner to the Finance portfolio in 1972 was meant to be a signal of this intention.[72] The tax reform process had coincided with the introduction of major new tax incentives for U.S.corporations by the Nixon government, as part of its New Economic Policy, in August 1971.

The Canadian government feared that these incentives would undermine future investment by U.S. subsidiaries in Canada, and felt compelled to respond with a tax incentive package of its own in the 1972 budget. It consisted of a flat reduction in rate of the corporate income tax on manufacturing profits and a new two-year write-off of the cost of all machinery and equipment for use in the manufacturing and processing of goods in Canada. The ostensible purpose of the tax changes was to maintain the competitiveness of Canadian industry with that of the United States. However, independent econometric analysis of the two tax packages suggested that the benefits of the Canadian package far outweighed those of the U.S. package.[73] There is strong reason to believe that the real agenda of the tax changes introduced in 1972 was to repair some of the damaged relations between the Liberal party and its business supporters.

The 1972 tax incentives proved to be the first of many that were to follow. In 1974 the corporate tax write-offs were extended indefinitely, and in the June 1975 budget, the government introduced a 5 percent tax credit for investment, undertaken in the next two years, in new buildings, machinery and equipment for the manufacturing and processing industries. The period of the investment tax credit was extended, and the level of its benefits was further increased in the budgets of March 1977, April 1978, and November 1978. A more generous write-off provision for expenditures on research and development was also introduced.[74]

The data in Table 2-3 indicate that these corporate tax measures constituted merely the tip of the iceberg. Reductions in the sales tax, the personal income tax and tariff rates were added on, along with further improvements in the terms of Registered Retirement Savings Plans and the introduction of the Registered Home Ownership Savings Plan. During the second half of the decade, spending through the tax system grew at a rate of 42 percent, compared with the 30 percent rate of growth of direct expenditures.[75]

The reasons for the tremendous increase in tax expenditures over this decade are many and complex. The decade of social reform prior to 1972 undermined the relations that had prevailed between business and government since the end of the Second World War. Extensive changes were made to the tax system in an effort to repair the damage. In each of the five years following the passage of the Tax Reform Bill, the number of amendments to the act ranged between 75 and 175. According to the minister of finance who presided over most of these changes, the extensive amendments "reflected a decision to roll back on unworkable sections of 'tax reform'. It was a deliberate decision."[76] The preceding analysis indicates that the verdict of "unworkable" is as much a political judgment on the effects of tax reform, as it is a technical or administrative judgment.

Developments in tax policy were also affected by concern over the economic slowdown that took place after 1974. In a conscious effort to stimulate the economy, the government made large across-the-board cuts in the personal income tax in 1974 and in the sales tax in 1978. A growing preoccupation with the level of public expenditures, and the formal commitment to expenditure restraint as part of the Anti-Inflation Program, compelled the fiscal authorities to rely more heavily on the tax system, but according to Patrick Grady, a senior official in the Department of Finance during this period, the largest components of the discretionary increases in the deficit during this period were the product of conscious policy decisions.[77]

One other factor had an important bearing on the development of tax policy. As the case of the 1971 U.S. tax changes suggests, Canadian policy is extremely sensitive to comparisons between levels of taxation in the two countries. This point was emphasized in a federal government paper released in 1978:

> International differences in the over-all level of tax rates, and in the tax structure as it applies in certain circumstances, can have an important effect on growth, capital flows and the ability of Canadian firms to supply international markets at competitive prices. Any major differences could also affect Canada's ability to attract individuals with special technical and professional skills.[78]

The study concluded that although there were certain differences in the tax structure of the two countries, the overall rates and levels of taxation were broadly comparable. In 1977, aggregate personal income taxes were lower in Canada as a percentage of personal income, and effective corporate income tax rates were six percentage points lower in Canada than in the United States.[79] The host of tax changes introduced in Canada during the preceding years undoubtedly contributed to keeping effective tax levels below those in the United States.

The extensive changes made to the tax system since 1971 have an important bearing on the distribution of income in Canada. While some of the tax measures introduced since 1972 have been neutral in their distributional impact, the overall effects of the tax expenditures are biased in favour of upper income earners.[80] In a tax paper introduced with the November 1981 budget, the federal government estimated that of 152,000 tax filers with income in excess of $50,000 in 1979, 3,400 had no tax liability while another 21,300 paid less than 10 percent of their income in federal tax. The study also noted that relative to income, high earners receive larger benefits than low earners. For people with incomes over $100,000, federal tax preferences (excluding housing tax expenditures for capital gains and imputed rental income) were worth 19.7 percent of income in 1979, compared with less than 4 percent for those with incomes under $30,000.[81]

The politics of taxing and spending in Canada closely parallels the experience of other advanced industrial nations governed by centrist and rightist parties in the past decade. The political constituencies of the Liberal party have been strongly resistant to allowing increases in the effective level of taxation commensurate with the increases that occurred in levels of direct spending. The Liberal party had risked alienating a substantial portion of its business and upper income constituencies with what were perceived as overly generous transfer programs and a disastrous attempt at comprehensive tax reform. The price of repairing the political damage was a steady stream of tax concessions intended to reassure private enterprises and upper income individuals that the cost of the welfare state in Canada would not fall on their shoulders. Herein lie the political roots of the structural component of the deficit.

Bureaucratic-Institutional Factors and the Deficit

Although political factors were most important in the emergence of the structural deficit during the 1970s, the organizational development of the federal bureaucracy contributed as well. Richard French has analyzed the evolution of new planning systems in Ottawa under the Trudeau government, particularly the cabinet planning system centred in the Plans Division of the Privy Council Office. The creation of new supply-oriented departments in the 1960s resulted in an increasing fragmentation of economic policy making and greater competition for the cabinet's attention in this area. The establishment of the cabinet planning system was an attempt to cope with the new problems of economic management that resulted from these organizational changes in the federal government. The introduction of the new planning systems challenged the pre-eminence that Finance had enjoyed in economic policy in the preceding decades.[82]

The hallmark of the new cabinet planning system was the principle of collegiality. Under it, Finance was required to work closely with the other key bureaucratic actors in the formulation and implementation of policy. Finance's response to these new planning initiatives took the form of resistance, rather than cooperation, as it attempted to protect its traditional preserve against encroachment by any other members of the bureaucracy. This was particularly true with respect to its traditional areas of responsibility over the revenue budget and the determination of tax policy.[83]

In the defensive posture adopted by the Department of Finance during the 1970s, the tax expenditure became one of the few policy instruments over which the department retained exclusive control. Finance, as part of the annual revenue budget process, could implement key policy

changes independently of cabinet's collegial decision-making process. David Good, in his analysis of federal tax policy, notes that there was a tendency within Finance to select policy instruments that were readily available. When officials in the Department of Finance were asked how they made a choice between the use of tax expenditures versus direct expenditures, the simple reply was that they did not. "In short, more often than not, other factors 'back' the participants into implicitly accepting tax expenditures as the most rational alternative given the particular circumstances."[84]

There is also some evidence that in the period after the introduction of expenditure restraint (post-1975), the Department of Finance came under increased pressure from other departments to use tax measures for the implementation of specific policy goals. While there is disagreement over how extensive this pressure was, and the degree to which Finance gave in, no doubt it did contribute to the growth of tax expenditures.[85] These two sets of factors — the political and bureaucratic — did not work independently of each other. Bureaucratic officials are extremely sensitive to the political concerns of their ministers. Thus, both political and bureaucratic actors had stronger incentives to make use of the tax system to achieve their objectives in the post-1971 period.

One other institutional factor had a bearing on the growth of the deficit during the 1970s: federal-provincial relations. The trend in federal-provincial fiscal relations since the late 1950s has been in the direction of greater federal abandonment of the direct tax fields in favour of the provinces. The reasons behind this trend have been varied and complex. (These developments are analyzed in greater detail in other studies for the Commission.) The last round took place in 1977, with the passage of the Established Programs Financing and Fiscal Arrangements Act. Under this Act, the federal government transferred additional tax points to the provinces along with a fixed amount of block funding, in exchange for the provinces assuming full responsibility for hospital and medical care and the funding of post-secondary education. The motivation behind this tax transfer was the federal government's desire to extricate itself from conditional grants, whose final costs were open-ended. As the data in Table 2-3 indicate, the revenue lost as a result is substantial, although there have also been savings in direct transfers to the provinces. In the renegotiation of these agreements in the early 1980s, the federal government argued that the revenue loss far exceeded the expenditure saving, a point strongly disputed by the provinces. If the federal position is accepted, it would explain an additional element of the structural deficit incurred in the past few years.

The Deficit: Prospects for Reform

The preceding analysis reveals that there are deeply rooted political factors that account for the current size and structure of the budgetary

deficit in Canada. The deficit itself is, at best, symbolic of these underlying factors.

A strategy of deficit reduction must be balanced to deal with both the economic and political factors that give rise to it. An effort to eliminate the cyclical component of the deficit through direct expenditure cuts or tax increases would likely have disastrous economic effects. The cyclical component of the deficit is there by design, not by accident:

> Cyclical movements of the deficit represent the automatic stabilizer feature of government budgets — a fall in tax revenues in a downturn tends to mitigate the slump, a rise caused by an upturn tends to dampen the boom. Rather than being a cause for concern, the cyclical behaviour of the deficit should be taken simply as evidence of the presence of these automatic stabilizers.[86]

Despite the operation of these automatic stabilizers, the persistence of abnormally high levels of unemployment gives rise to concern about the effectiveness of fiscal policy. There is reason to believe that fiscal stimulation alone may not be an adequate policy response to overcome the problems of low rates of growth. In addition, the problem of import leakage weakens the effectiveness of demand stimulation in the Canadian economy. It may well be, as the government's economic planners feared 40 years ago, that the open nature of the Canadian economy limits the applicability of Keynesian prescriptions. Part of the solution to the deficit may depend on a number of other economic policies that can deal with the industrial structure of the Canadian economy; for example, policies concerning the relative size and competitiveness of the secondary manufacturing sector, the forward and backward linkages of the primary resource sector, and the import propensity of foreign subsidiaries of multinational firms.[87]

There is still some reason to believe that an effort to reduce the structural component of the deficit over the medium term would be a desirable goal. Attempts to do this in the short term, without due regard to the stabilization effects, would be counterproductive. Nonetheless, a number of economic commentators believe that the persistence of an excessive deficit well into the period of recovery is an indication of fiscal imprudence on the part of the federal government.

Neil Bruce and Douglas Purvis have recently argued that the government's fiscal plan is imprudent if, given some realistic estimates of economic performance and inflation targets over the medium term, the ratio of the stock of interest-bearing government debt to nominal GNP remains permanently above some target value. They set the target ratio of the prudent deficit at 15.1 percent of trend GNP for the federal government, and 17.9 percent for the consolidated government sector. Their calculations indicate that on the basis of this definition, the federal deficit is imprudent and must be reduced by $11 billion by 1988.[88]

This estimate of the imprudent deficit is remarkably close to the Department of Finance's estimate of the structural deficit of $13.4 billion for 1983 (Table 2-2), the last year for which published figures are available. There is a growing consensus among various sectors of Canadian society that a deficit reduction of this magnitude, over the medium term, would be a desirable goal.

Several proposals for a strategy of deficit reduction have been put forth in the United States and Canada. In a recently published report entitled *Economic Choices 1984*, the Brookings Institution in Washington called for a short-term freeze on spending on domestic programs at the 1984 level; cancellation of cost-of-living increases in benefits (except for low-income earners); raising the age at which early retirees from the civil service and armed forces are entitled to full pensions; holding Medicare and Medicaid increases to the rate of inflation plus 1 percent; reductions in agricultural price support programs; elimination of selected defence systems; and replacing the personal and corporate income tax with a single cash flow tax, eliminating a thicket of deductions and tax shelters.[89] However, recent speculation about prospective deficit reduction strategies suggests that a more regressive approach is likely to be followed than the balanced one embodied in these proposals. Informed political observers note that a battle is taking shape within the governing conservative coalition. The supply-side and monetarist wing favours the introduction of a flat tax, while the more traditional business wing leans toward a new form of taxation on consumption, be it a value added tax, a national sales tax or a turnover tax.[90]

In Canada, a similar range of proposals has been put forth. William Empey, vice-president and general manager of Data Resources of Canada, advocated a $15 billion reduction in the federal deficit through increases in the personal and corporate income tax and the sales tax, and reductions in spending on transfer payments and capital assistance programs spread over four years.[91] Edward Carmichael of the C.D. Howe Institute has used the Bruce and Purvis findings to advocate a reduction in the imprudent deficit. This could be achieved through the substitution of a value-added tax for the federal sales tax, imposition of a minimum corporate income tax, elimination of personal tax breaks, tightening the rules on eligibility for unemployment insurance, taxing back the benefits of universal social security programs from high income earners, a reduction in the Petroleum Incentives grants, the sale of several Crown corporations, and reductions in subsidies to other Crown corporations.[92] Another study by the Business Council on National Issues, released in September 1984, called for a deficit reduction of $5 to $10 billion over the medium term to 1988 based on expenditure cuts to the Economic Development, Social Affairs, External Affairs and Energy spending envelopes.[93]

Recent studies of public attitudes toward taxing and spending in advanced industrial countries contain some important insights into the potential reactions to various deficit reduction strategies. These studies reveal that, throughout the major industrial countries, there is strong generalized support for spending on social programs which involve direct transfers to individuals. There is considerably less support for spending on selective programs that provide support for targetted groups in society. A major cross-national study of public attitudes toward taxing and spending in the mid-1970s found a high degree of convergence in support for programs that are "universal" in their distribution of benefits — old age pensions, national health care, and family allowances. There was considerably less support for programs such as unemployment insurance or social assistance, which were seen as having direct distributional effects.[94]

A recent study of Canadian attitudes commissioned from Decima Research by the Ontario Economic Council revealed a similar pattern. Public support in Canada was strongest for maintaining programs of assistance to health care, family allowances and subsidies for post-secondary education. Public opinion was much more prepared to contemplate reductions in direct in-kind services such as mail-delivery, public broadcasting and the number of government employees.[95] These findings suggest that there are important political pitfalls in the path of those deficit reduction strategies that rely upon the elimination of the universal dimension of social programs.

On the revenue side, there seems to be increasingly greater opposition to taxation, according to the visibility of the tax structure. The critical variable for public support is not the absolute level of taxation; rather, it is the extent to which the effective tax burden is visible to the taxpayers. Richard Coughlin surveyed public attitudes in four European nations to test for the existence of a fiscal crisis and for evidence of the tax revolt. He concluded that there was surprisingly less variation among public attitudes in the four countries than their recent politics would suggest. His most significant finding was the existence of a direct relationship between the type of taxation on which each nation relied and the public reaction to continued social spending:

> Those nations which tend to rely most heavily on "direct" taxes on income and profits all show higher levels of public resistance to increased taxing and spending than those nations where the burden is more evenly distributed across taxes on goods and services and social security contributions.[96]

These findings are supported by another study, by Douglas Hibbs and Henrik Jess Madsen, which concluded that the long-run cause of the reaction to public spending (most pronounced in countries such as Denmark) was the growth of a tax system based on highly visible general

revenue taxes and the channelling of public expenditures into labour intensive, government supplied services rather than into direct transfers to households.[97]

The results of public opinion polling conducted by Decima Research during the 1984 federal election sheds further light on Canadian attitudes with respect to this issue. Testing for public responses to the question of the relative tax burden borne by different categories of taxpayers (an issue which figured prominently in the election), Decima found that 79 percent of Canadians believed that the rich should be taxed more heavily.[98]

The findings of these comparative studies contain important lessons for the framers of deficit reduction strategies. There continues to exist a strong base of public support for the major social transfer programs that have most often been blamed for the growth of the deficit. Conversely, there is evidence of resistance to increases in highly visible direct taxes to cover the deficit, but recent Canadian results indicate that there is strong public support for a more equitable sharing of the existing tax burden. The various deficit reduction strategies outlined above all run the risk of ignoring these fundamental political realities.

The analysis of the various sources of the deficit presented in this paper indicates that the root of the problem lies with the revenue budget, rather than the expenditure budget. During the period in which the federal government made an explicit commitment to restrain the growth of expenditures, from late 1975 to the onset of the recession in 1981, it was highly successful in achieving this goal. Any attempt at further expenditure restraint through reductions in universal social programs would likely encounter strong resistance because of the high degree of popular support for these programs. The current reluctance of the leaders of the major political parties to publicly espouse such an approach to deficit reduction provides strong confirmation of this assertion.

The government has not enjoyed the same degree of success in its efforts to stem the revenue loss through tax expenditures. As the analysis of the tax reform process makes clear, there are large and powerful political constituencies of centrist and rightist political parties that can use their political influence to block such reforms. The attempt of the Liberal government at tax reform in the early 1970s provides ample proof of the way in which this influence can be mobilized to protect vested interests. The same lesson emerges from the attempt at deficit reduction that underlay the November 1981 budget. The Liberal government failed to anticipate the same reaction to this budget that it had encountered in the earlier tax reform attempt. More importantly, it failed to mobilize a significant political constituency in favour of the budget to counteract the attack which was sure to come. As Bruce Doern has pointed out:

> The Budget purported to tax the rich by closing off the lucrative tax expenditures and distributing the benefits to as many as twelve million Canadians in the form of reduced taxes. This proposal provided for an infinitesimal gain to the members of a dispersed constituency of largely middle class and

upper income income Canadians. It provided for losses to powerful and cohesive economic interests. It rightfully earned the Liberals little support and much criticism.[99]

The outcome of the attempts at tax reform in 1970–71 and 1981 indicate that such a course of action is fraught with political difficulty; yet tax reform remains the most economically and socially desirable strategy for deficit reduction. The data presented in the second section of this paper indicate that a relatively few tax expenditure items, with regressive distributional effects, account for a significant proportion of revenue loss to the federal government. Included in this category are the lower corporate tax rate on manufacturing; the two-year write-off for investment in manufacturing and processing industries; the investment income deduction; the investment tax credit; the reduction in marginal income tax rates introduced in 1982–83; the sales tax exemption on clothing; the lower corporate tax for small business; the non-taxation of one-half of capital gains; the dividend gross-up and tax credit; the deduction for contributions to registered pension and registered retirement savings plans; and the Scientific Research Tax Credit.[100] Although a figure for the current revenue loss from these items is not available, it would easily exceed the figure of $11 billion cited above.[101]

The attempt to implement such a reform package would encounter the same opposition that emerged in 1971 and 1981. The success of such a strategy depends on the mobilization of the broadest possible constituency in its support. Such a mobilization could be effected through an appeal based on the defence of universal social programs, to which there remains a strong level of public attachment. It could also be based upon the appeal to a more equitable sharing of the tax burden by all Canadians, a principle for which there appears to be overwhelming public support.

Any attempt to reduce the deficit through a strategy of tax reform is filled with political pitfalls. The comparative analysis presented in this paper suggests that a social democratic government would be more likely to succeed in the implementation of such a strategy, but the prospects of this occurring in Canada in the near future do not appear great. The difficulties for a centrist or rightist government in implementing such a strategy have been elaborated above. However, the failure to take decisive action presents even greater hazards. The persistence of high structural or imprudent deficits, symbolizing the underfinancing of the public sector, will weigh like a millstone around the neck of governments, preventing them from dealing with more fundamental economic problems. Attempts to reduce the deficit through the attenuation of universal social programs or the introduction of regressive taxes may generate increased social tensions that will undermine governmental efforts to facilitate long-run structural adjustments. The necessary course of action is clear; all that is required is the political will to act.

Notes

This study was completed in November 1984.

1. Canada, Department of Reconstruction and Supply, *Employment and Income with Special Reference to the Initial Period of Reconstruction* (Ottawa: King's Printer, 1945), p. 21.
2. A representative survey of some of these assessments can be found in H. Scott Gordon, "A Twenty Year Perspective: Some Reflections on the Keynesian Revolution in Canada," in *Canadian Economic Policy Since the War*, edited by S.F. Kaliski (Montreal: Canadian Trade Committee, 1966), pp. 23–46; R.M. Will, *Canadian Fiscal Policy, 1945–63*, Studies of the Royal Commission on Taxation, No. 17 (Ottawa: Queen's Printer, 1967); Douglas A.L. Auld, "Fiscal Policy Performance in Canada, 1957–1967," *Public Finance* 24 (1969): 427–36; W. Irwin Gillespie, "Postwar Canadian Fiscal Policy Revisited, 1945–1975," *Canadian Tax Journal* 27 (May-June 1979): 265–76; Maurice Lamontagne, *Business Cycles in Canada: The Postwar Experience and Policy Directions* (Toronto: James Lorimer for the Canadian Institute for Economic Policy, 1984), chap. 3.
3. David Conklin and Adil Sayeed, "Overview of the Deficit Debate," in *Deficits: How Big and How Bad?* edited by David W. Conklin and Thomas J. Courchene (Toronto: Ontario Economic Council, 1983), pp. 12 – 18. These different measures of the deficit are also discussed in greater detail in The Honourable Marc Lalonde, minister of finance, *The Federal Deficit in Perspective* (Ottawa: Department of Finance, 1983), Appendix A. A slightly different definition of these two terms can be found in Robert W.R. Price and Jean-Claude Chouraqui, "Public Sector Deficits: Problems and Policy Implications," *OECD Economic Outlook Occasional Studies* (Paris: Organization for Economic Co-operation and Development, June 1983), pp. 15–25.
4. Conklin and Sayeed, "Overview of Deficit," pp. 18–22; Lalonde, *Federal Deficit*, pp. 6–10.
5. The Honourable Marc Lalonde, minister of finance, *The Fiscal Plan*, (Ottawa: Department of Finance, 1984), p. 50.
6. Lalonde, *Federal Deficit*, pp. 7–8.
7. John Bossons and D.P. Dungan, "The Government Deficit: Too High or Too Low?" *Canadian Tax Journal* (January-February 1983): 22.
8. Other estimates of the inflation and cyclically adjusted component of the deficit suggest that it might be even larger than these estimates. A study by John C.P. McCallum concluded that for 1982, the cyclically and inflation adjusted budget balance for the federal government was close to zero, while for the government sector as a whole, there was a structural surplus of $9 billion; "Government Deficits: Historical Analysis and Present Policy Alternatives," in *Deficits: How Big and How Bad?* edited by W.D. Conklin and Thomas J. Courchene (Toronto: Ontario Economic Council, 1983), p. 299. A study by Henri-Paul Rousseau estimated that the inflation and cyclically adjusted budget balance for the federal government showed a small surplus for 1982, while the government sector as a whole was in surplus by $7.3 billion; "The Dome Syndrome: The Debt Overhanging Canadian Government and Business," *Canadian Public Policy* 9 (March 1983): 51–52. A study by Neil Bruce and Douglas D.Purvis concluded that virtually all the deficit for the consolidated government sector in 1983 could be attributed to cyclical and inflation adjustment factors; "Fiscal Policy and Recovery from the Great Recession," *Canadian Public Policy* 9 (March 1983): 62. A more recent estimate by Bruce and Purvis puts the cyclically and inflation adjusted federal deficit at $10.5 billion (using the Department of Finance's low-trend output) or $7.5 billion (using the high-trend output) for 1984, while the comparable figures for the consolidated government sector are $3.6 billion (low-trend output) and $0.7 billion (high-trend output); *Evaluating the Deficit: The Case for Budget Cuts*, Policy Commentary No. 4 (Toronto: C.D. Howe Institute, 1984), pp. 16–17.
9. Lalonde, *Federal Deficit*, pp. 10, 41.
10. The Honourable John Crosbie, minister of finance, *Budget Speech, December 11, 1979* (Ottawa: Department of Finance, 1979), pp. 40–42.

11. Lalonde, *Federal Deficit*, pp. 50–51.
12. Government of Canada, *Tax Expenditures Account* (Ottawa: Department of Finance, 1979), pp. 15–17, 20. It is impossible to estimate what the current cost of these tax expenditures is, as the federal government has not seen fit to update its tax expenditure account since 1980. Based on a comparison with the items listed in Table 2-3, it is unlikely that the cost would be lower than it was in 1980.
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14. Linda McQuaig, "R and D Tax Credit Could Cost Ottawa Almost $1 Billion," *The Globe and Mail*, June 4, 1984.
15. David R. Cameron, "Taxes, Spending and Deficits: Does Government Cause Inflation?" in *The Politics of Inflation and Recession*, edited by Leon Lindberg and Charles Maier (Washington, D.C.: Brookings Institution, forthcoming), Table 9-4.
16. Canada, Department of Finance, *Economic Review, April 1984* (Ottawa: Minister of Supply and Services Canada, 1984), Reference Table 94. An international comparison of public sector deficits using a somewhat different statistical basis can be found in Price and Chouraqui, "Public Sector Deficits," pp. 15–19.
17. Lionel Robbins, *The Great Depression* (London: 1934), pp. 60–75, 160–172, 186–190, quoted in John A. Garraty, *Unemployment in History: Economic Thought and Public Policy* (New York: Harper and Row, 1978), pp. 197–98.
18. James M. Buchanan and Richard E. Wagner, *Democracy in Deficit: The Political Legacy of Lord Keynes* (New York: Academic Press, 1977), pp. 9–10.
19. Ibid., p. 11.
20. Joan Robinson, *Economic Philosophy* (Harmondsworth, Middlesex: Penguin Books, 1964), p. 70.
21. Michael Stewart, *Keynes and After*, 2d ed. (Harmondsworth, Middlesex: Penguin Books, 1972), p. 70.
22. Donald Winch, *Economics and Policy: An Historical Study* (London: Hodder and Stoughton, 1969), pp. 204–208.
23. Stewart Bates, *Financial History of Canadian Governments*, study prepared for the Royal Commission on Dominion-Provincial Relations (Ottawa: King's Printer, 1939), p. 80.
24. Irving Brecher, *Monetary and Fiscal Thought and Policy in Canada, 1919–1939* (Toronto: University of Toronto Press, 1957), pp. 200–201.
25. Robert Skidelsky, "The Political Meaning of the Keynesian Revolution," in *The End of the Keynesian Era: Essays on the Disintegration of the Keynesian Political Economy*, edited by Robert Skidelsky (London: Macmillan, 1977), pp. 36–37; Stuart Holland, "Keynes and the Socialists," in Skidelsky, *The End of the Keynesian Era*, p. 71.
26. Robert Skidelsky, "The Political Meaning of the Keynesian Revolution," p. 35; Robert Malcolm Campbell, "From Keynesianism to Monetarism," *Queen's Quarterly* 88 (Winter 1981): 637–38.
27. Adam Przeworski, "Social Democracy as an Historical Phenomenon," *New Left Review* 122 (July-August 1980): 50–56; David Wolfe, "Mercantilism, Liberalism and Keynesianism: Changing Forms of State Intervention in Capitalist Economies," *Canadian Journal of Political and Social Theory* 5 (Winter/Spring 1981): 88–90.
28. W.A. Mackintosh, "The White Paper on Employment and Income in Its 1945 Setting," in *Canadian Economic Policy Since the War*, edited by S.F. Kalisky (Montreal: Canadian Trade Committee, 1966), p. 15; see also W.A. Mackintosh, "Canadian Economic Policy from 1945 to 1957 — Origins and Influences," in *The American Economic Impact on Canada*, edited by Hugh G.J. Aitken et al. (Durham, N.C. and London: Duke University Press and Cambridge University Press, 1959), pp. 56–60.
29. Buchanan and Wagner, *Democracy in Deficit*, pp. 15–20.
30. Ibid., p. 50.

31. Ibid., pp. 102–105.
32. Daniel Bell, *The Cultural Contradictions of Capitalism*, (New York: Basic Books, 1976), chap. 6.
33. Michel J. Crozier, Samuel P. Huntington, and Joji Watanuki, *The Crisis of Democracy: Report on the Governability of Democracies to the Trilateral Commission* (New York: New York University Press, 1975); Richard Rose and Guy Peters, *Can Government Go Bankrupt?* (New York: Basic Books, 1978); Anthony King, "Overload: Problems of Governing in the 1970s," *Political Studies* 23 (1975); Samuel Brittan, *The Economic Consequences of Democracy* (London: Temple Smith, 1977).
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36. Paul McCracken et al., *Towards Full Employment and Price Stability*, a report to the OECD by a group of independent experts (Paris: OECD, 1977), pp. 170–71.
37. James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's Press, 1973), p. 6.
38. Ibid., pp. 8–9, 226–36.
39. I have analyzed in greater detail the period leading up to, and the factors behind, this development in economic policy in David Wolfe, "The State and Economic Policy in Canada, 1968–75," in *The Canadian State: Political Economy and Political Power*, edited by Leo Panitch (Toronto: University of Toronto Press, 1977), pp. 251–88. The change in monetary policy is examined critically in Arthur W. Donner and Douglas D. Peters, *The Monetarist Counter-Revolution: A Critique of Canadian Monetary Policy, 1975–1979* (Toronto: James Lorimer for the Canadian Institute for Economic Policy, 1979), chap. 1. See also the analysis of the source of these problems in Campbell, "Keynesianism to Monetarism," pp. 639–46.
40. The other two sources cited were the large increase in the money supply and the apparent increase in the concentration of economic power. This letter is quoted in Robert B. Crozier, *Deficit Financing and Inflation: Facts and Fiction*, Occasional Paper No. 3 (Ottawa: The Conference Board in Canada, 1976), p. 1.
41. Ibid., p. 5.
42. Robin M. Richardson and Charles B. Loewen, "Macdonald Is Being Misled. Folly to Deny Government Outlay Feeds Inflation," *The Globe and Mail*, August 19, 1976.
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44. Richardson and Loewen, "Macdonald is Being Misled."
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46. Robin Richardson, "Deficit Financing and Inflation: A Reply to the Crozier Report and the Department of Finance," *Canadian Public Policy* 3 (Summer 1977): 289.
47. The Honourable Allan J. MacEachen, deputy prime minister and minister of finance, *The Budget in More Detail* (Ottawa: Department of Finance, 1981), p. 72; the Honourable Allan J. MacEachen, deputy prime minister and minister of finance, *Budget Papers* (Ottawa: Department of Finance, 1982), p. 16.
48. Martin Mittelstaedt, "Size of Deficit Sends Bond Market Reeling," *The Globe and Mail*, June 30, 1982.
49. Martin Mittelstaedt, "Mushrooming Deficit Causes Some Concern," *The Globe and Mail*, April 21, 1983.
50. Burns Fry Ltd., *Brief Submission to the Royal Commission on the Economic Union and Development Prospects for Canada* (Toronto, December 2, 1983).

51. Bank of Montreal, *The Canadian Economy in Transition*, Brief presented to the Royal Commission on the Economic Union and Development Prospects for Canada (Ottawa, November 1983).

52. "Canada's Growing Debt Alarms Bank Executive," *The Globe and Mail*, January 23, 1984.

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54. Cf. Rick Deaton, "The Fiscal Crisis of the State in Canada," in *The Political Economy of the State: Quebec, Canada, U.S.A.*, edited by Dimitrios I. Roussopoulos (Montreal: Black Rose Books, 1973), pp. 18–58.

55. Ontario Public Service Employees Union, *Brief Submission to the Royal Commission on the Economic Union and Development Prospects for Canada* (Toronto, November 1983), p. 24.

56. Walter Korpi and Michael Shalev, "Strikes, Power, and Politics in the Western Nations, 1900–1976," in *Political Power and Social Theory*, vol.1, edited by Maurice Zeitlin (New York: JAI Press, 1980), pp. 316–19.

57. Cameron, "Taxes, Spending and Deficits," pp. 21–23.

58. Ibid., pp. 46–47.

59. Ibid., p. 47.

60. This finding is congruent with the major finding of an earlier study by Cameron; cf. "The Expansion of the Public Economy," *American Political Science Review* 72 (December 1978): 1243–61.

61. Manfred G. Schmidt, "The Role of the Parties in Shaping Macroeconomic Policy," in *The Impact of Parties: Politics and Policies in Democratic Capitalist States*, edited by Francis G. Castles, sponsored by the European Consortium for Political Research (London and Beverly Hills: Sage Publications, 1982), p. 118.

62. Ibid., p. 120.

63. Ibid., p. 123. It should be noted that both Cameron and Schmidt classify Canada as having been dominated by centrist or centre-right parties throughout the postwar period. Further confirmation of the findings of these two studies can be found in the conclusions reached by Harold Wilensky in his series of ongoing studies on the welfare state over the past decade; cf. Harold L. Wilensky, "Democratic Corporatism, Concensus and Social Policy: Reflections on Changing Values and the 'Crisis' of the Welfare State," in *The Welfare State in Crisis*, an account of the Conference on Social Policies in the 1980s, Paris, October 20–23, 1980 (Paris: Organisation for Economic Co-operation and Development, 1981), p. 193. See also his earlier work on this question, Harold L. Wilensky, *The 'New Corporatism,' Centralization and the Welfare State* (London and Beverley Hills: Sage Publications, 1976), especially chapter 2.

64. Reginald Whitaker, *The Government Party: Organizing and Financing the Liberal Party of Canada, 1930–1958* (Toronto: University of Toronto Press, 1977), pp. 401–402. I have analyzed the impact of these conflicting pressures on the development of postwar economic and social policy in my Ph.D. dissertation; David A. Wolfe, "The Delicate Balance: The Changing Economic Role of the State in Canada, 1939–1957" (University of Toronto, 1980), chaps. 4 and 5.

65. Tom Kent, *Social Policy for Canada: Towards a Philosophy of Social Security* (Ottawa: Policy Press, 1962), p. 19. The events of the Kingston Conference are described in greater detail in Denis Smith, *Gentle Patriot: A Political Biography of*

Walter Gordon (Edmonton: Hurtig Publishers, 1973), pp. 75–77; and in Christina McCall-Newman, *Grits: An Intimate Portrait of the Liberal Party* (Toronto: Macmillan, 1982), pp. 36–37.

66. Ibid., pp. 39–50.
67. McCall-Newman, *Grits*, p. 268.
68. This theme runs throughout Richard W. Phidd and G. Bruce Doern's analysis of Canadian economic policy; cf. *The Politics and Management of Canadian Economic Policy* (Toronto: Macmillan, 1978), pp. 51–52, 185–86, 315–26, 364–77, 534–37.
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70. J. Harvey Perry, *Background of Current Fiscal Problems*, Canadian Tax Paper No. 68 (Toronto: Canadian Tax Foundation, 1982), pp. 95–110.
71. Ibid., p. 86.
72. McCall-Newman, *Grits*, p. 269;
73. John Helliwell and John Lester, "Reviewing the Latest DISC: Simulations of its Aggregate Impact on Canada," *Canadian Tax Journal* 20 (July-August 1972): 297. The broader question of the effectiveness of tax incentives as a policy instrument to stimulate investment has also been subjected to considerable examination. In a survey of the major findings of these studies, Richard Bird concludes that tax incentives are much more likely to influence the composition of investment than they are to increase the total level of investment; cf. *Tax Incentives for Investment: The State of the Art*, Canadian Tax Paper No. 64 (Toronto: Canadian Tax Foundation, 1980), p. 47.
74. I have discussed the developments in corporate tax policy in the 1970s in more detail in David Wolfe, "The Politics of the Corporate Income Tax in Canada," paper presented to the National Conference of the Canadian Centre for Policy Alternatives, Share the Burden or Pass the Buck, Ottawa, January 1982.
75. Edward Tamagno, "Comparing Direct Spending and Tax Spending," *Canadian Taxation* 1 (Winter 1979): 44. In another study of the use of tax expenditures, Allan Maslove noted that in the period from the adoption of tax reform to the end of the decade, revenue loss through tax expenditures grew at an annual average rate of 27 percent which far exceeded the rate of growth of direct spending; "Tax Expenditures, Tax Credits and Equity," in *How Ottawa Spends Your Tax Dollars: Federal Priorities, 1981*, edited by G. Bruce Doern (Toronto: James Lorimer for the School of Public Administration, Carleton Unversity, 1981), pp. 239–41.
76. Douglas G. Hartle, *The Revenue Budget Process of the Government of Canada: Description, Appraisal, and Proposals*, Canadian Tax Paper No. 67 (Toronto: Canadian Tax Foundation, 1982), p. 22. The comments published in the margin of Hartle's study are attributed to a former minister, identified only as M3. From the context, however, it is clear in my opinion that they are John Turner's comments.
77. Ibid., p. 4. Grady is explicitly identified in the introduction to the book as the individual whose comments are denoted by 01.
78. Canada, Department of Finance, *The Tax Systems of Canada and the United States: A Study Comparing Levels of Taxation on Individuals and Businesses in the Two Countries* (Ottawa, 1978), p. 1.
79. Ibid., pp. 57–59.
80. Even some items, such as sales tax reductions for clothing, which are commonly presumed to have a progressive effect, do not necessarily favour lower income earners when the pattern of family expenditures on clothing as a percent of disposable income is taken into account. This point is emphasized in an article documenting the pitfalls of estimating the distributional effects of tax expenditures; cf. Nicholas

LePan, "Measurement of the Revenue and Distributive Effects of Tax Expenditures," *Canadian Taxation* 2 (Winter 1980): 223.

81. Hon. Allan J. MacEachen, deputy prime minister and minister of finance, *Analysis of Federal Tax Expenditures for Individuals* (Ottawa: Department of Finance, 1981), pp. 12, 17. A similar conclusion was reached by Allan Maslove in his examination of tax expenditures. He noted that in 1978, the highest 14 percent of tax filers received 52 percent of the total tax expenditures; Maslove "Tax Expenditures," p. 241. See also Ernie S. Lightman, *Canada's Tax System and the Poor*, A Background Paper and Pre-Budget Submission to the Minister of Finance on behalf of The National Anti-Poverty Organization (Ottawa: 1984).
82. Richard D. French, *How Ottawa Decides: Planning and Industrial Policy-Making, 1968–1980*, (James Lorimer for the Canadian Institute for Economic Policy, 1980), p. 29; Phidd and Doern, p. 534.
83. French, *How Ottawa Decides*, pp. 29–30.
84. David A. Good, *The Politics of Anticipation: Making Canadian Federal Tax Policy* (Ottawa: School of Public Administration, Carleton University, 1980), pp. 168–69.
85. Hartle, *The Revenue Budget Process*, pp. 4, 15.
86. Bruce and Purvis, "Fiscal Policy and Recovery," p. 62.
87. I have dealt with the limits of Keynesianism in Canada more extensively in David A. Wolfe, "The Rise and Demise of the Keynesian Era in Canada: Economic Policy, 1930–1982," in *Readings in Canadian Social History*, vol. 5: *Modern Canada*, 1930–1980s, edited by Michael S. Cross and Gregory S. Kealey (Toronto: McClelland and Stewart, 1984), pp. 46–78.
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89. William Johnson, "Brookings Offers U.S. a Model to Cut Deficit, "*The Globe and Mail*, June 18, 1984.
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91. David Stewart-Patterson, "$15 Billion Federal Deficit Reduction Called Both Desirable and Achievable," *The Globe and Mail*, June 20, 1984.
92. Thomas Walkom, "Deficit Can Be Cut to $7 Billion: Study," *The Globe and Mail*, August 14, 1984.
93. Business Council on National Issues, *The Federal Deficit: Some Options for Expenditure Reduction* (Ottawa, August 1984). The recent strategy of deficit reduction announced by the minister of finance in his economic statement is in substantial accord with these strategies. Hon. Michael H. Wilson, minister of finance, *Economic and Fiscal Statement, Nov. 8, 1984* (Ottawa: Department of Finance, 1984).
94. Richard M. Coughlin, *Ideology, Public Opinion and Welfare Policy: Attitudes Towards Taxes and Spending in Industralized Societies*, with a foreword by Harold L. Wilensky (Berkeley: Institute of International Studies, University of California, 1980), pp. 117–24.
95. Ian McKinnon, "What Does the Public Think About Deficits? What Does Bay Street Think About Deficits?" in *Deficits: How Big and How Bad?* edited by David W. Conklin and Thomas J. Courchene (Toronto: Ontario Economic Council), p. 199.
96. Coughlin, *Ideology, Public Opinion and Welfare Policy*, p. 153.
97. Douglas A. Hibbs and Henrik Jess Madsen, "Public Reactions to the Growth of Taxation and Government Expenditure," *World Politics* (1981): 434.
98. Linda M. McQuaig, "Canadians United in Saying Ottawa Should Tax the Rich," *The Globe and Mail*, October 30, 1984.
99. G. Bruce Doern, "Liberal Priorities 1982: The Limits of Scheming Virtuously," in *How Ottawa Spends Your Tax Dollars: National Policy and Economic Development 1982*, edited by G. Bruce Doern (Toronto: James Lorimer for the School of Public Administration, Carleton University, 1982), p. 10. An alternative explanation of the November 1981 budget has recently been suggested by W. Irwin Gillespie. He argues that the objective of the budget was to distract attention away from the federal

government's real goal, the partial de-indexing of the personal income tax, which was successfully effected in the June 1982 budget. W. Irwin Gillespie, "The 1981 Federal Budget: Muddling Through or Purposeful Tax Reform?" *Canadian Tax Journal* 31 (November–December 1983): 984–88.

100. The elimination of this last item was one of the first measures announced by the new Progressive Conservative government.

101. This list does not include all, or even the most, regressive tax expenditure items. There are numerous other measures whose elimination would be desirable merely from an equity perspective. Further, it does not include the tax expenditures that may be desirable from a stabilization or equity point of view, such as the 1974 personal income tax reduction, the indexation of the personal income tax or the general reduction in the sales tax.

3

Natural Resources and National Politics
A Look at Three Canadian Resource Industries

JOHN N. MCDOUGALL

Introduction

Canadians typically harbour ambiguous, even mildly contradictory, attitudes toward their natural resources. In some respects, the exploitation of the country's natural wealth was the dominant driving force in its economic development and political evolution, and remains to this day a central element in the economy; yet this "hewers of wood, drawers of water" identity is one that Canadians often resent and would like to overcome. Resented even more, perhaps, is the knowledge that this quintessentially Canadian activity of turning fish, fur, wood, metal and hydrocarbon into wealth is one in which Canadians have always been extraordinarily dependent on foreigners, sometimes for their technology, often for their capital, almost always for their markets. In turn, this reliance upon others has fortified an impression that the country has failed somehow to realize the maximum benefits potentially available from the development of its natural resources, as if the various forms of dependence on outsiders had forced Canadians to alienate too much of what they might have derived from their rich endowment.

While the primary focus of this paper is on resource policies and the politics surrounding them, one of the central objectives of the discussion is to understand the constraints — geographic, economic and political — that restrict the scope for effective government action. Indeed, it will be argued that Canada's dependence on foreign markets for the profitable exploitation of its resource wealth has always been and will continue to be a major obstacle in the way of improving significantly upon past performance; and further, that the pervasive effects of conti-

nental dependency in particular reduce even more the likelihood that significant policy changes will be pursued.

Although primary constitutional responsibility for resource industries is provincial, the justification for a primary focus on national policies arises out of the mandate of this Royal Commission itself. The intent of this study, along with others in this group, is to examine the politics of economic policies, in this case resource policies, in Canada as a whole over the past few decades. Needless to say, the analysis cannot be considered to cover all the "politics of resources," since other resource sectors such as hydro, agriculture and fisheries are not considered, and interprovincial politics are not examined in detail. Rather, the focus here is on several dimensions of federal-provincial and public-private conflict with respect to three resource industries, emphasizing the interests and ideas that have interacted to produce the kinds of policies that now exist.

The paper, then, examines the oil and gas, metal mining and forest products industries. While the analysis concentrates on federal policies affecting all three of these industries, provincial policies are also examined selectively, using the legislation of at least two provinces with regard to each of the three industries. The study is divided into four main sections. The first provides an overview of Canada's resource industries in the past and present and attempts to distill from this review a set of prevailing conditions and traditions with continuing relevance to the politics of resource policy. The next section surveys federal and provincial laws and regulations as these evolved through the 1950s, 1960s and 1970s, particularly with regard to taxation and environmental protection. The section following examines three major policy questions concerning these industries that appear most likely to persist in the politics of Canadian resources in the immediate future, namely, the issues of marketability, rents and industrial diversification. The final section highlights the present conflicts between governments and between the public and private sectors as well as those that are most likely to arise out of developing global, continental and national trends.

Background Conditions and Traditions

At the most basic level the politics of resources begin with the constitutional assignment and the evolution of powers affecting resource management as a whole. Under section 109 of the *Constitution Act, 1867*, all lands, mines, minerals and royalties belong to the province "in which the same are situate." Provincial ownership is reinforced by the property and civil rights section, 92(13); the power to levy direct taxes, 92(2); and the authority over the management and sale of public lands belonging to the province, 92(5). These powers together confer on the provinces far-reaching authority over the management of all lands in the province, even those that are not public lands. It has been conceded for many years

that the provinces have primary responsibility for the regulation and management of natural resources and primary access to natural resource revenues. The federal government exercises these "provincial powers" of land ownership in Yukon, the Northwest Territories and the offshore areas.

There are a number of significant bases for federal involvement in the natural resources sector, as well. The "trade and commerce" power, 91(2), gives Parliament jurisdiction over all aspects of interprovincial and international trade, which includes such matters as interprovincial pipelines and oil and gas exports and consequently affects the marketing of resources as soon as they become commodities for trade. The "declaratory power" as spelled out in section 92(10)(a) gives Parliament control over those provincial works it "declares" to be "for the general advantage of Canada" or "of two or more of the provinces." This declaratory power was used by the federal government to attempt to gain control over all aspects of atomic energy, although the courts later conferred federal jurisdiction on other grounds. The "emergency power" of section 91 gives Parliament extensive authority to legislate and maintain "peace, order and good government." Section 91(3) provides virtually complete freedom to employ any mode or system of taxation, the only limitation being the prohibition of section 125 against taxation of "Lands and Property" belonging to a province. This power is important with respect to the provision of incentive systems for resource development. The "spending power" is Parliament's power to make payments for purposes other than those for which it can legislate; this specific authority was used to provide direct grants to home-owners for home insulation, notwithstanding the fact that, jurisdictionally, provincial governments are responsible in this field. Finally, the federal cabinet may disallow provincial legislation, even though this power has not been used since 1943.

These constitutional sources of conflict are compounded by the diverse character of the resource industries themselves. Most resource industries are as distinct from one another as the commodities they produce. Even the limited number of industries examined here produce substances as unlike one another physically as wood pulp, natural gas and copper wire; and the processes for their production do not have much more in common. Moreover, these industries are distributed across the country very unevenly. As industries, however, they do show several important similarities and common characteristics, which help to produce some political stresses and policy controversies common to the resource sector. A number of these are discussed more fully in this section, including:

- Export dependency: a large portion of the resource industries' total production, ranging from 35 to 90 percent, is exported to foreign, predominantly U.S., markets.

- Limited upgrading: the bulk of the exports of these commodities takes place at a low level of processing/fabrication.
- High foreign inputs: the industries concerned are, or have been, heavily dependent on inputs from foreign sources, including most notably capital and production technology.
- Low effective rates of taxation: a low percentage of the income in these industries is subject to taxation, as compared, say, with the manufacturing or service sectors.
- Resource-based regions and one-industry towns: the activities of these industries are often concentrated and isolated nationally within resource-based, hinterland regions, and provincially within centres whose entire raison d'être is the exploitation of that single resource. Examples of the company/resource town are Prince George, Dryden, Fort McMurray, Asbestos, Sudbury, Schefferville and Trail.

Hardly exhaustive, even this brief list of common characteristics of Canada's resource industries gives rise to several observations concerning the politics of resource policy. For one thing, all these features have surfaced at one time or another as political issues, and a few of them have been elevated to the status of truisms or even political myths. For another, the prevalence of regionalism and one-industry towns often acts as a political amplifier, intensifying the public concern focussed on one or more of the other features listed (e.g., foreign control); this occurs particularly when economic circumstances produce a downturn in the industry concerned or possibly even threaten the termination of production at that particular site and hence the continued existence of an entire community. Political intensification through regionalism and localization is probably why corporate predictions (or threats) of disinvestment in their facilities in certain places can be seen to carry so much weight in negotiations with governments over such matters as taxation and environmental protection. Finally, the first characteristic listed, export dependency, creates circumstances that frustrate policies aimed at improving all the rest; and the political significance of that fact in turn is that export dependency itself is almost beyond the reach of changes in public policy. We should pause, therefore, to examine generally the economic and political consequences of this basic Canadian condition.

The relationship between Canada's economic and political evolution and the rise and fall of external demand for its primary commodities could hardly be any closer. The cod fishery, the fur trade and the square-timber trade were primarily responsible for, respectively, the discovery, further exploration and large-scale settlement of much of the country. After this original phase, the creation, expansion and improvement of transportation systems predicated on the exportation of natural resources generated an uneven rate of economic development; in the case of the St. Lawrence canals and the early intercolonial and transcon-

tinental railways, transportation of natural resources gave rise to periodic political and even constitutional adjustment through cycles of expansion and contraction in external demand. However, the persistence of this pattern can be misleading if it conveys a sense of continuity and reliability, for one of the most striking features of Canada's export-led resource development is precisely its contingency. That is to say, the Canadian prosperity and growth spurred by the exploitation of natural resources have been tenuous because returns have been extremely vulnerable to largely circumstantial changes in the country's major export markets: Canada's economic fortunes have been strongly subject to the diplomatic and even strategic vagaries of international politics, in addition to the cyclical ups and downs of the world economy. This situation has produced an enduring attempt to stablize resource development and to control its pace, even though to do so has been persistently difficult.

To illustrate such patterns, it is worth noting the considerable impact on Canada of the following strategic, military and political developments in which Canada, and indeed economics as such, played little or no direct part:[1]

- Napoleon's blockade of British trade with the Baltic States gave the impetus to Canada's square-timber trade after 1806.
- The repeal of the Corn Laws in England expanded North American grain trade with the United Kingdom and improved the viability of the commercial system built on the St. Lawrence waterway.
- World War I accelerated the development of Canada's nickel deposits at Sudbury.
- U.S. commitment to atomic and then thermonuclear weapons determined the development of Canada's uranium industry and, arguably, its own nuclear power industry.
- The Korean War occasioned the first export of natural gas from Alberta (to Montana) and prompted the construction of the Trans Mountain Pipe Line Company's oil pipeline from central Alberta to Anacortes, Washington.
- U.S. policies controlling the importation of "strategic" minerals (including, on occasion, oil) through quotas and/or the subsidizing of domestic producers have placed several Canadian mineral industries in periodic difficulty, while U.S. stockpiling of such minerals has occasionally boosted demand for Canadian exports.

The importance of this list, which could be readily extended, is not limited to its historical interest but lies more in the point that it helps to drive home: that not only is the economic viability of Canada's resource industries heavily dependent on developments outside its borders, over which it can exercise practically no control, but these external developments are as likely to arise in the political sphere as in the economic. As a

more recent example: Canadian newsprint exports to the countries of Western Europe have been threatened by recent changes in exchange rates that favour Scandinavian producers, but Canada has even more to lose from changes in the import quotas and preferential tariffs of the European Economic Community (EEC).[2] As another example bearing a closer resemblance, perhaps, to the earlier historical examples: expectations concerning the future of the Canadian nickel industry have been bound up with estimates of the potential for sea-bed mineral exploitation, which in turn have depended on the attitude of the United States toward such deposits; and the U.S. position again in turn depends on a host of political and diplomatic uncertainties, including the cohesion of various syndicates in which American firms participate, the assertiveness of the less developed countries in the United Nations, and the resolution of outstanding issues concerning the Law of the Sea.[3]

Thus, Canada's reliance upon successive phases of resource development for the stimulation of economic growth has consistently reinforced a general dependence on export markets and vulnerability to largely unpredictable and uncontrollable changes in the global economic and political climate. If it is accurate to charge Canadian governments, especially since World War II, with an indiscriminately welcoming attitude toward foreign investment in the country's resource industries, and with a broadly unassertive stance in both the national and the provincial capitals in regard to potential public revenues and other gains from the exploitation of Canadian resources — a "development on any terms" mentality — then it may be fair to acknowledge this vulnerability as one of the central explanations for such attitudes. Insofar as "continentalism" has been an economic rationale over the last 30 years, it may be seen as a strategy to protect the country's economic fortunes from this market dependency by spreading the risk across as much investment in as diverse a set of different resources as possible; or, to put it more bluntly, by taking investment wherever we can find it.[4] In this case, Canada's heavy dependence on resource exports would also account for the lack of determined action at both the provincial and federal levels to reverse some of the other characteristics listed earlier as common to the resource industries, such as low value-added, limited Canadian inputs and low rates of taxation. That is, the deals struck by Canadian governments have reflected the weakness of their bargaining position. This is not to suggest that governments have not tried to address these issues and that some improvements have not occurred, but only that the political room for manoeuvre has been limited.

This line of argument seems worth pursuing, for it is one way of posing the questions raised in the introduction: to what extent have the more prominent characteristics of Canada's resource sector (many of which have been condemned as the result of political failures in government) been a reflection of the physical, economic and technical "givens" facing

the various resource industries? Or, what do the development of Canada's resource industries and the record of government intervention to date tell us about the capacity of government to affect favourably the operations of these industries and the conditions under which Canadian resources are exploited? These questions are examined in greater detail with specific reference to each of the three resource industries under review in this study.

Oil and Gas

Canada's oil and gas industry has risen to national significance more recently than the other two industries reviewed here, and its major development coincides roughly with the central time span of this review (1950–present). As a contemporary observer noted during the first decade of its development, in its early phase the "oil" and the "natural gas" segments of the industry were the subject of very different — indeed, directly opposite — national priorities. While the development of reserves and productive capacity in both sectors was to be encouraged, the priority with oil was to find North American markets in competition with the United States' own sources, and with gas it was to preserve supply for Central Canada in the face of competing U.S. demand (see Aitken, 1959, p. 23). This simple distinction in fact anticipated substantial differences in the regulatory and public policy treatment of the two fuels for at least 20 years. Thus, with respect to marketing, national policy took an explicitly continentalist approach to Alberta's crude oil and an explicitly "Canada first" approach to Alberta's natural gas: the former was seen as an internationally traded commodity, which required no discrimination as to the nationality of either sources or buyers; while the latter was regarded as a continentally traded, premium fuel for industrial and space-heating purposes, requiring direct government action to prevent Central Canadian dependence upon possibly unreliable U.S. supplies (see McDougall, 1982, chaps. 4–7).

As supplies grew in Alberta during the 1950s, the protection of Canadian users of natural gas seemed assured, and exports were permitted, indeed encouraged, by the government itself and subsequently by its regulatory instrument, the National Energy Board (NEB). By the early 1970s natural gas exports constituted close to 50 percent of total Canadian production. Oil, meanwhile, was being produced in greater and greater volumes as a result of both strenuous efforts on the part of Canadian authorities to secure a larger share of the U.S. market and federal restrictions preventing overseas imports into Canadian markets west of the Ottawa River. These oil exports peaked briefly at over 50 percent of production, although shortly thereafter the oil supply and price shocks of 1973 led to the imposition upon Alberta oil of the same "Canada first" approach as had been originally applied to natural gas, as Alberta oil was diverted from the United States to the Montreal market.

Neither the federal nor the provincial governments took direct action to ensure the upgrading of Canadian oil or natural gas as a condition of export, at least not before the 1970s. Thus, the economic activity generated by Canada's oil and gas exports was restricted almost exclusively to the irreducible levels of exploration, production, and pipeline transportation. This approach was modified in the 1970s as the governments of Ontario and Alberta made heavy, and for a time competitive, commitments to promote expanded petrochemical capacity in their respective provinces (see Richards and Pratt, 1979, pp. 244–45). The result, as far as one can observe at this point, is surplus capacity in the petrochemical industry and growing pressure from the industry for such government measures as protection from overseas competition, bilateral trading agreements with the United States, partially deregulated oil and gas prices, and other action to reduce the cost of their feedstocks.[5]

Canadian inputs into the oil and gas sector were once notoriously low. Until recently, foreign capital in the industry has represented the highest level of foreign control among the major sectors of the Canadian economy, standing at 74 percent in 1963 and 77 percent in 1973.[6] Along with the capital came mature technology, including expertise, and, for some time, management. As time went by, Canadians took up an increasing proportion of senior technical and managerial posts within foreign-controlled firms, and local suppliers of equipment and services developed. Again, however, significant changes did not occur until the 1970s, when Canadian public and private investment increased dramatically the share of the assets controlled by Canadians, and deliberate attempts were made to improve the level of Canadian content in major new developments.[7] The earlier prominence of foreign capital in the industry nonetheless needs to be read in view of the legendary neglect of, and indifference to, the development of Canadian oil and gas companies on the part of Central Canadian industrialists and financial institutions.[8]

As far as tax revenues are concerned, the oil and gas sector has generally been among the most favoured by federal and provincial tax legislation (see the discussion of policy trends). Depletion allowances and capital cost allowances have tended to reduce the effective rate of taxation for the larger firms in the industry to among the lowest in Canada, although more recent policies have, in some circumstances, favoured smaller Canadian producers. As for other government revenue, Alberta royalties were not onerous prior to 1972 (16-2/3 percent of well-head revenues), and even today, after the enormous political wrangle over rents that followed the second major OPEC price increase of 1979, the share of total oil and gas revenues accruing to the industry has returned, in view of some, to roughly the level of the mid-1970s. This claim is disputed by the industry, and the claims and counterclaims have become increasingly more difficult to sort out because since 1980 there has been a noticeable redistribution of industry revenues among dif-

ferent types of firms and an increase in federal as compared with provincial revenues.[9]

Export prices were for some time left essentially to the determination of the private sector, although the NEB had ostensible power to regulate the export price of natural gas until the mid-1970s. The export and, indeed, domestic price for crude oil was effectively determined by the Chicago price, itself a derivative of the world price as determined by the major global companies. Gas export prices were generally approved by the NEB at levels set by the cost-of-service of the exporting pipeline companies, which in some cases resulted in prices below the cost of alternative fuels in the U.S. market in which the gas was sold.[10] After 1973, fairly rapid action was taken to ensure that exports of both oil and gas occurred only at world prices or equivalent, and in the case of oil, as already mentioned, most of Canada's exports in any event were diverted from the American to the Montreal market.

In sum, between 1948 and 1973 major intervention by the federal government in the oil and gas industry was intended primarily to ensure reliable natural gas supplies for Ontario consumers and to secure markets for Alberta oil producers. Apart from this, federal intervention set few national priorities that negatively affected the interest of the private sector; if anything, the expansion of the industry was encouraged by generous tax treatment, beneficial regulation and helpful diplomacy. A continental industry was complemented by a continentalist policy. The events of 1973, however, opened the way to a unique kind and degree of government intervention in the oil and gas sector. In no other single industry and at no other time has any Canadian government combined the following: export price regulation; domestic price regulation; a massive new Crown corporation; tax inducement to Canadian ownership; comprehensive revisions to regulations governing development on federal lands; major increases in taxation; and the declaration of an overarching national goal for the industry.

Simply to review such a list is to invite two questions. Have these enormous changes in the nature and degree of federal intervention over the past 10 years been the result of a change of philosophy on the part of government (and are they therefore, incidentally, likely to find their way to other resource sectors), or have the changes been largely dictated by the extremity of circumstances in the energy field? Without pretending to provide an exhaustive analysis of the origins and consequences of the National Energy Program (NEP), an overview of the evidence would seem to support the contention that the government's recent energy policies owe their existence to a "once-in-a-lifetime" conjunction of international events and domestic circumstances.[11] The most important of these factors is the most straightforward and also the least likely to be repeated in any other sector: the tenfold (real) increase in the world price of oil.[12] To this factor, potent as it was by itself, it is necessary to add a

few others to establish the connection between this singular economic development globally and some unique political effects nationally:

- The almost universal consumption of fuels. Everybody lives in a dwelling; the vast majority own or share an automobile; a great many Canadians have something to do (customer, worker, shareholder) with some industry whose energy costs are a significant component of total costs.
- The extremely high visibility of energy prices. Visits to the gasoline pump occur weekly, on average, and are often paid for in cash. Utility bills arrive monthly. Rents are adjusted annually, reflecting increases in heating costs.
- The geographic separation and concentration of the Canadian population into those whose exclusive interest in energy is in its consumption (the vast majority), and those whose primary interest in energy is in its production.
- The stark political fact that those with a primary interest in the production of fuels can be safely "written off" politically by a national party confident of strong electoral support in Ontario and Quebec.

This list of specific circumstances is enough in itself to establish the compelling political rationality of one course of action for a government with a national constituency: to capture the enormous rents to producers from the rising world price and distribute them to consumers. Among the conceivable instruments for such a policy, one of the most simple is also one of the most visible and immediate: to maintain a Canadian price for oil significantly below the world price. What producers forego in income is distributed automatically to consumers in the form of expenditures they do not have to make. In short, the strategy is to adopt a "made in Canada" price and prepare to weather the political storm generated in the producing provinces, whose potential revenues are reduced by the amount of the difference between the established Canadian price and the world price (see Norrie and Percy, 1981, pp. 117–19).

This approach to prices (which included the Oil Import Compensation Program), the fairly speedy action to divert Alberta oil from the U.S. to the Montreal market via the new Sarnia to Montreal pipeline, and the establishment of Petro-Canada were the most concrete policies adopted in the aftermath of the OPEC price hikes during the 1970s. Other initiatives that were either introduced or consolidated in the ostensibly nationalist provisions of the National Energy Program follow directly or indirectly from this initial and fundamental commitment. For one thing, the understandably tough resistance of both the producing companies and the producing provinces to what they saw as a raid on their revenues could be undermined politically by appeals to an exalted national purpose, in the context of which they must appear either foreign, in the case of the companies, or parochial, in the case of the producing provinces.

At a more practical, less symbolic level, it did not hurt for bargaining purposes to demonstrate to the major companies that their dominance within the industry was about to be diminished by generous incentives to Canadianization (Petroleum Incentive Payments) and an enlarged public presence in the industry (Petro-Canada), or to remind the Alberta government that its days as the almost exclusive supplier of oil and gas to Canada were not as long as it had once thought. (See Canada, Department of Energy, Mines and Resources, 1980, pp. 38–41, 42–48, 51–52.)

In sum, it was the conflict with the producing provinces and the oil industry on the specific issue of petroleum prices, rather than any profound shift in attitudes toward either the United States or foreign investment, that prompted the Liberal departures in the direction of Canadian nationalism. (Grass-roots support no doubt also played a part: public opinion was becoming increasingly critical of oil companies in general and of foreign-controlled oil companies in particular throughout the 1970s.[13]) This observation may explain why the government was able so readily and so convincingly to reassure the American government that it had no intention of generalizing its nationalist approach to other sectors.[14] In any case, one is tempted to conclude that the main difference between policies pertaining to the oil and gas industry and those pertinent to other foreign-controlled industries in Canada was not a new nationalist philosophy but a distinct set of economic and political circumstances. Even where it does appear that Canada's new energy policy advanced Canadian interests at the cost of American interests, it is important to bear in mind at least one of the key changes in the international environment for a time following 1973: countries exporting a globally traded commodity were able to dominate importing countries, so that for this one commodity, for this brief period of time, the most common pitfalls of market dependency could be avoided or at least mitigated. Against this background, Canadian nationalism, bold by previous Canadian standards, was mild by prevailing world standards.[15] All things considered, it seems fair to conclude that the goal of the federal government's nationalism in the energy sphere was more to achieve centralization in the domestic context than to promote independence in the continental context.[16]

Forest Products

While oil and gas might be counted as one of the country's newest resource industries, forest products would have to be counted one of its oldest; and on the basis of its sustained contribution to national income and export earnings over time, it would have to be considered the country's single most important industry as well. It is, further, one of the most widely dispersed industries in the country, in the sense that almost every province — certainly each major region — supports a fairly high

level of activity in at least some product areas, although the share the forest products industry has in the total production varies widely from one provincial economy to another. As a consequence, interregional trade is very limited except in a few product lines, and sales to adjacent export markets and to the local market take up an enormous share of the production in any one region (Pearse, 1980, pp. 427–32).

The federal government has never adopted policies governing the marketing of Canadian forest products, at least as far as the pricing or destination of these products is concerned. Indeed, its most conspicuous policies in the area of trade would involve tariffs against the importation of some product lines, such as plywood and quality papers. There is, however, a long provincial tradition of policies to promote the upgrading of exports of forest products from Ontario and Quebec, from the early prohibition on the export of saw logs to the successful fight to eliminate U.S. tariffs against the import of Canadian pulp and newsprint (Nelles, 1974, pp. 62–80, 335–46). Policies in this direction have not been entirely successful, given the rather substantial tariff protection afforded by the U.S. and other foreign governments to their domestic producers of more highly fabricated wood and paper products. It is also worth noting that while exports take up a very large proportion of Canadian production in major categories, these exports are not as concentrated in the U.S. market as are many others, with the Europeans providing a traditional, though apparently declining, alternative and Japan providing a notable potential for export growth, especially for British Columbia producers. Essentially, the industry has functioned as a residual supplier to the U.S. market.[17] As U.S. and international competition in Canada's export markets increases, as is happening already, it is not inconceivable that the government will take some unprecedented action to subsidize the export of forest products — an undertaking that may not be entirely compatible with the objective of significantly upgrading these resources before they leave the country (Pearse, 1980, p. 462).

Like most of Canada's resource industries, the forest products industry has relied heavily on foreign inputs, although the slightly greater labour intensity of harvesting the basic resource raises somewhat the proportion of the factors of production located here. Foreign direct investment has accounted for a large portion of total investment in this industry, roughly 30 to 40 percent, depending on the product group, with 20 to 30 percent of all investment originating specifically in the United States (Pearse, 1980, p. 444). Large as these percentages are, however, they are smaller than in most of Canada's resource industries and even than in the manufacturing sector as a whole. Production technology tends to be international and readily diffused throughout all producer countries, so it is not surprising that the importation of technology is also high. Given its size and long history, it may be questioned why the industry has not drawn more substantially on capital goods produced in

Canada, even when the technology is of foreign origin, and why the industry operating in Canada has not been a more prominent source of innovation in the sector. Perhaps the fact that to a considerable extent the industry in Canada has operated as residual supplier to the U.S. market has also relegated the Canadian industry to a secondary status with respect to the application of new technique, although the relatively low wood costs that have prevailed in Canada until recently would be a factor as well. In any case, a recent study of the pulp and paper industry in Ontario has shown that the slowness of Ontario producers to adopt, much less innovate, several new cost-saving processes developed since the mid-1960s has played a discernible role in the failure of those producers to compete as effectively in the American market as they once had done with U.S. producers (Anderson and Bonsor, 1984, chap. 2, pp. 9–10).

Canada's forest-based industries have generally been treated as generously by the federal tax system as other resource-based industries; the effective rate of combined federal and provincial taxation in Ontario and Quebec has run between 7 and 13 percent in recent years.[18] Depreciation and capital cost allowances have been most significant in reducing the effective tax rates generally, and provincial royalty (stumpage) rates on the volume of production have not been onerous in most cases. There is some evidence of provincial competition in the reduction or abatement of taxes in order to attract incremental investment, as we see today in other industries such as potash, where New Brunswick is deliberately undercutting the tax regime established by the government of Saskatchewan.[19] As these examples suggest, there may be a critical role for the federal government in such circumstances to "save the provincial governments from themselves" by enforcing uniform standards nationwide, so that one province need not fear being undercut by another. However, history also suggests that this would constitute a radical departure in the federal approach to such matters; and the jealousy of the provinces for their jurisdiction over resources makes such direct federal intervention politically unattractive though not, in many possible cases of such action, unconstitutional (see McEvoy, 1984; Cairns, 1981b).

Before turning from this overview of forest products, it is worth considering a possible objection that this industry is not like the others discussed here because it is based on a renewable as opposed to a non-renewable or depletable resource, a fact that provides sufficient reason to place it in a different political and public policy context. The sad answer to this observation must be that while in principle the forests are renewable, in practice they have been depleted — or are rapidly becoming so in some areas. In other words, what theoretically could have developed as a renewable-resource industry has with lamentably few exceptions in Canada been developed as an extractive industry, which places it in closer historical association with the minerals industries than

might otherwise have been the case.[20] To argue for the distinction, therefore, is mainly to underscore the past weaknesses of public policy in this area, although the potential for sustained yields will take on more significance when this discussion turns, in the section on future prospects, to a consideration of the policy challenges presented by foreseeable trends.

Mining

Canadian mines provide an enormous range of minerals and metals for use at home and abroad. A recent survey of resources in Canada–U.S. relations gave particular attention to iron ore, nickel, phosphates, potash, asbestos, copper, uranium, zinc, lead, silver and gold, among others of lesser significance (Beigie and Hero, 1980, vols. 1 and 2). About the only major mineral Canada does not mine is bauxite, and even here we play a major role in the industry as a processor owing to our high level of electrical power development, a prerequisite of large-scale aluminium production. So large and diverse is this group of mined commodities that generalization across all of them is likely to degenerate into trivia, while selection among them is likely, on most a priori grounds, to introduce a bias of some sort. Consequently this discussion somewhat arbitrarily focusses on two of the largest in value of production, nickel and copper.[21]

To an overwhelming extent, Canada produces nickel and copper for export, in particular to the American market. However, the federal government has shown far more interest in the marketing of nickel than of copper, an interest that has been born of both political and economic concerns. The crucial importance of nickel in the manufacture of armour plate (and hence, of ships and tanks in particular), combined with the delayed entry of the United States into World War I, contributed greatly to the politicization of the extremely close relationship between the International Nickel Company (Inco), the world's largest producer of nickel, and the United States Steel Corporation, its major buyer. Quite simply, there were fears that Canadian nickel was being used against the imperial war effort, via the refined nickel exports of the United States (see Aitken, 1959; Cameron, 1980; Nelles, 1974, pp. 349–61; Main, 1955). Security concerns also affected Inco and the Canadian industry during and after the Korean War, although in the opposite direction. The U.S. government, fearing its almost exclusive dependence on Inco, encouraged the development of competing nickel suppliers through stockpiling and pricing supports, measures that account for the emergence of Falconbridge, now the second-largest firm in this industry in Canada. Moreover, the dominant position of Inco in the U.S. market has kept the firm constantly under the gun of U.S. anti-trust action, which among other consequences means that the company has been very conservative

in its pricing policies (Cameron, 1980, pp. 68–72). The threat of U.S. antitrust action has also prevented Inco from pursuing certain downstream production opportunities (such as batteries) in the United States. In short, and somewhat paradoxically, Canada's very domination of world nickel production and sales to the U.S. market, and Inco's very domination of the nickel industry, have resulted as much in political vulnerability as in economic strength in the country's major market. Nevertheless, even in today's more competitive circumstances, Canada's established nickel mines still enjoy cost advantages over those developed more recently elsewhere.[22]

These producers have been subjected in Canada to long-standing pressures to upgrade the quality of the country's exports, and Inco now has two Ontario refineries. The further-processing issue has not gone away, however, despite the fact that Inco is already facing overcapacity in its refining. For example, various sanctions and incentives have been directed at Falconbridge to refine its product in Canada, but there is evidence that economics simply do not permit this.[23] Meanwhile, the political attitude persists that something more in the way of industrial activity — various types of fabrication of nickel products, for example — should have been and could yet be generated from the great richness of Canada's nickel deposits. But here again are encountered the two most common obstacles to the success of such a strategy: the need to locate end-product manufacture where production and transportation costs are minimized, conditions that are more likely to occur near the point of sale of the end product than the place of production of the raw material; and the necessity of climbing over the escalating schedule of tariffs that just about every industrialized country (including Canada) imposes on the importation of metal end products.[24] These two factors have also worked to restrict Canada's copper exports to the prefabrication stage.

The mining industry has relied heavily on foreign inputs — although it may be more accurate to say that it draws very lightly upon the rest of the Canadian economy — largely because the industry's backward linkages with other industries, foreign or domestic, are limited.[25] Foreign investment in the industry is substantial, falling between the low represented by forest products and the high represented by oil and gas, among the resource industries examined here.[26] As with the other two industries, foreign technology and expertise often move in train with this foreign capital, although it may be that the mining industry of Ontario has introduced more original technology than the other sectors as the industry has developed new extractive and refining processes, utilizing large amounts of hydro-electric power (with which the province is so well endowed) instead of heat. Like most resource industries, mining is capital-intensive and does not generate a high level of employment in relation to the value of its output as compared with industries in manu-

facturing, construction and services (see Wilkinson [table], 1985). Mines and processing plants, however, can be extremely important to local communities, whose continued prosperity and even viability often rest on the operation of one or two mining firms.

The mining industry has generally been afforded extremely favourable tax treatment by both federal and provincial governments, although provincial legislation in the early to mid-1970s had the result of subjecting a higher proportion of corporate income to taxation than had previously been the case.[27] The issue of capturing resource rents has been particularly controversial in relation to the mining industry, and the subject has received considerable attention from governments and academics. The Royal Commission on Taxation (Carter Commission) in the late 1960s and the Kierans Report (Manitoba, 1973) in the early 1970s contributed to a wider public awareness of the lack of wealth returning to Canadians from the exploitation of their resources and of the biases or distortions introduced into the Canadian economy as a result of the advantages granted the mining industry. However, the Kierans Report appears to have had more effect on the tax policies of Manitoba and other provinces than the Carter Commission had on the federal government.[28] Certainly pressure from the mining industry (and to some extent from the provincial governments) seems to have had a lot to do with the fact that the federal white paper on taxation was considerably less hard on the industry than the recommendations of the Carter Commission, and again with the fact that the eventual legislation was less severe than the white paper (Bucovetsky, 1975, pp. 93–103).

Without attempting to assess the merits of the mining industry's case against the Carter Commission proposals, it may be worth noting a few points about the politics generated by the mining taxation issue. First, it seems that fairly intense and widespread public concern and demands for action were stimulated by clear-cut and hard-hitting evidence that Canada's mining companies were realizing large profits on the extraction of the country's mineral wealth and returning very little of that wealth to Canadian governments, albeit in accordance with the tax laws of the land. This suggests that earlier public acquiescence on the issue may have stemmed partly from ignorance of the operations of these companies and of the way tax laws actually worked out. Second, when some provinces did act to increase their "take" from these companies through various tax changes, the mining industry's key argument was that the increased taxes were certain to discourage new investment in the relevant provinces and bring about a gradual shift in production away from the "new tax" provinces toward other provinces and countries whose tax rates were now relatively more attractive to investment. This line of argument was also used to mobilize one level of government against the other on tax questions, by persuading these governments — and presumably their publics — that the room for new taxes was so limited that

what one level of government might gain the other level would have to give up. Third, the industry still appears able to trade politically, though to a diminishing degree, on the prevailing myths surrounding mining in this country — from the romantic image of the "lone prospector" to the "high-risk, high-roll" entrepreneurship of the firms themselves. However, even more important political assets are the industry's high level of concentration and therefore ease of mobilization for political purposes; its enormous financial resources and favoured access to top government officials; the political amplification that stems from the fact that so many of these firms are closely identified with one or more specific communities whose economic fate is almost completely dependent upon the success or failure of the mining enterprise; and a more general political attitude among Canadians that their resource industries are only marginally viable and are critically dependent upon infusions of new capital that could be threatened if the country gave an impression of hostility to free enterprise and foreign investment (Manitoba, 1973, pp. 27–29).

In sum, it seems highly unlikely, in the absence of extreme price increases comparable to those that occurred in the oil and gas sector in the 1970s (an event that was bound to prove unique, as was pointed out earlier, in its economic origins and political consequences), that there will be any large-scale assault by either the federal or provincial governments on the earnings of Canada's resource companies. In oil and gas, where the price shock did occur, the adjustments have already been made, and nothing like them is likely to be required again. Indeed, the most recent developments indicate that both levels of government are gradually backing away from their peak levels of tax and royalty collection. In mining, as we have just seen, the industry waged a successful campaign to blunt the brief flurry of government responses to the Carter Commission in the late 1960s and early 1970s. In pulp and paper and other forest products, it would seem that the higher-than-normal profit margins signifying a pure-rent component to industry income are simply no longer there.

These impressions, however, need to be considered more carefully against the background of broader trends in government policy pertaining to the resource industries over the past 40 years. This forms the task of the next section, in which tax, royalty and other legislative and regulatory actions are reviewed primarily for what they reveal about the capacity of government to affect the performance of industry; about the opposing capacity of the firms involved to deflect such pressures and to maintain their preferred ways of operating; and about the lessons to be learned from the outcome of such conflicts. In other words, an overview of policy trends is presented in order to establish some rough measure of the bargaining strengths of the public and private sectors.

The characteristics of the three resource industries just reviewed could well be regarded as a list (possibly a potential agenda) of items for

bargaining between governments and corporations, and some appreciation of the demonstrated strengths and weaknesses of the parties to this bargaining is an important element in forming judgments concerning developments in the foreseeable future. The postwar experience of Canadian governments with the adoption and implementation of resource policies should say something about both the power of circumstances and the contest of wills in the political economy of resources; and this should prove useful, in our examination of future prospects, in arriving at some assessment of the capacity of governments to expand the production of Canadian resources, to improve their revenues from that production, and to build more balanced growth on Canada's base of natural wealth.

Policy Trends

This section reviews the major developments over the past 40 years in federal and provincial taxation and regulation of resource industries. The findings are summarized in the Appendix. Table 3-A1 provides an overview of federal, provincial and U.S. policies pertaining to all three resources during the past four decades; and Tables 3-A2, 3-A3 and 3-A4 cover the same ground for each of the three resource industries individually. Table 3-A1, therefore, provides a broad indication of similarities and differences among governments and across industries; the other tables in this group provide greater detail, although the provinces are represented only selectively.

To begin with the most sweeping generalization that can be supported with reference to these tables, it is clear that the 1950s in Canada were characterized by low taxation, minimal interference and low intergovernmental conflict, while the 1970s featured higher taxation, more direct interference, and high, even extreme, intergovernmental conflict. The transition from the former regime to the latter occurred mainly between the late 1960s and the early 1970s, reflecting the exercise by provincial governments of some additional political muscle.

There are, of course, some differences among the three industries. Governments have been less active throughout with respect to forest products than to the other two industries. Moreover, the federal government's concern with the taxation of the minerals sector (mining and petroleum) generated controversy and provincial protest before the oil shocks of 1973–79. This suggests that the politics of the Carter Commission recommendations, for instance, and the politics of the National Energy Program (NEP), were different in degree rather than in kind, although the difference in degree was enormous. It seems fair to say that if in some way one could "factor out" the extreme distortions occasioned by the OPEC price increases, the metal mining and petroleum industries would appear closer to one another than either is to the forest

industry, which always seems less troubled politically. In the 40-year period addressed here, the forest industry was less favoured than the others early on and was therefore left out of the industry-government and intergovernmental squabbles that arose when extensive changes in tax treatment were considered or carried out later on (see Table 3-A5). The picture changes a bit as attention shifts from taxation to environmental protection. Here, forest products and mining are closer to one another than either is to the oil and gas industry, in that they have both been exposed since the early 1970s to increasing government intervention aimed at reducing the damage to the environment posed by their traditional modes of operation.[29] On the whole, though, it seems that the intergovernmental and industry-government politics surrounding environmental issues have remained within more manageable bounds than the taxation issue. This may be because the severity of environmental legislation has been softened at the implementation stage, and/or because governments have tended to provide various forms of assistance to industries to clean up (EEC, 1981a, pp. 64–68; 1981b, p. 278).

U.S. policies, too, from this broad perspective seem to have applied more direct and extensive measures to oil and metals than to forest products. As we saw in the preceding section, oil, copper, nickel and uranium were all subjected to various forms of import restriction, particularly in the 1950s and early 1960s. It should not be forgotten, however, that U.S. multinational corporations, extractive and manufacturing, were generally encouraged through most of this same period (1950–70) to expand their foreign operations (Blake and Walters, 1983, p. 96). It may be worth noting also that the U.S. government was out of phase with the Canadian government in its application of regulations for environmental protection, as it bore down earlier, and harder, on U.S. resource industries than the Canadian government was to do on its side of the border, and then relaxed its measures at about the same time as concern began to increase on the Canadian side. There is some evidence that Canadian industries experienced corresponding improvements and declines in their market prospects over this period (see Whitney, 1980, p. 300).

Taxation

Most of these same trends and cross-industry comparisons are broadly outlined in the data on corporate earnings and taxation presented in Table 3-A5. Among the most noticeable changes to appear in these data over the 1970s is the increase in taxes paid by both the mining and petroleum industries. Taxes paid by the metal mining industry represented 7.8 percent of book profits before taxes in 1968, 11.6 percent in 1978, and 17.8 percent in 1980. The same figures for the "Mineral Fuels" industry were 11.1 percent in 1968, 23.0 percent in 1978, and 17.4 percent in 1980. Meanwhile "Paper and Allied Products" were enjoying a decline

in the percentage of book profits before taxes actually taken by governments, from 29.6 in 1968, to 18.9 and 20.5 in 1978 and 1980, respectively. Also noticeable through all of this is the contrast between the resource industries and "All Manufacturing" industries, for whom the comparable taxation proportions are 33.2 percent in 1968, 25.7 percent in 1978, and 28.4 percent in 1980.

However, while governments have shown some inclination to increase the proportion of resource-based income that they are prepared to tax on behalf of their publics, and have thus exercised more power, one must bear in mind that the industries involved here, especially the petroleum industry, have been left with a slightly reduced share of a rapidly expanding income. As shown in Table 3-A5, the after-tax book profit of these industries increased impressively over the 12 years from 1968 to 1980.[30] These increases amount on average to 34 percent per year for mining, 102 percent per year for petroleum, and 81 percent per year for paper. All of these figures, with the possible exception of mining, represent impressive rates of growth even allowing for inflation. Again, a useful benchmark is available in the figure for the manufacturing industries: 34 percent per year over the same period.

Once again, one is drawn to the conclusion that the income of Canada's resource industries has not been severely eroded through excessive taxation, although such evaluations are inescapably matters of judgment and, as we have seen in the wake of the NEP, of intense political dispute. Moreover, the question of what proportion of the total return on the extraction of resources is rightfully owing to the Crown (that is, to the public) in the form of rents is notoriously an even more elusive one: no less a commentator than Anthony Scott has warned us that the economic nature of resource rents and related public resource revenues are complicated subjects "which we should avoid discussing whenever possible" (Scott, 1980, p. 213). We might gain some indication of the issues involved by following Eric Kierans and reflecting for a moment on the proportion of the income generated through the sale of Canada's resources that accrues to the public; that is, upon taxes as a percentage of sales (Table 3-A6, last line). As Kierans himself points out, this is "an unusual ratio," but when applied to the mining industry of Manitoba between 1965 and 1969, it leads to:

> an interesting insight into the distribution of the wealth created by the transformation of our natural resources. On average, 25% of the resources mined were converted into new capital during the five year period. This surplus belonged to the operators. Canadians obtained 14.7% of these profits in the form of taxes or 3–4% of the value of the depleted resources. When we boast of our wealth, we are only about 1/25th as rich as we think we are. (Manitoba, 1973, Table 9, note 3)

As we can see, Kierans' rather doleful assessment continues to be borne out, with minor improvements, in the percentage of the mining and paper sectors' total income paid in taxes during the years 1976 and 1980. These figures ranged from a low of 2.1 percent for the paper industry in 1976 to a high of 6.6 percent for the metal mining industry in 1980. Only in the petroleum industry do we see both levels of government taking a substantial share of the total income of the industry, 22.6 percent in 1976 and 25.8 percent in 1980.

The difference among the three industries studied here illustrates nicely a point stressed in the previous section: that the petroleum industry was singled out for some extraordinary treatment by governments during the 1970s, owing primarily to an equally extraordinary, if not unique, conjunction of circumstances in the international and national environments. The industry would claim, of course, that the taxation and revenue issue goes even further than this, since the pricing policies of the federal government during this period also had the effect of transferring enormous amounts of potential income from the industry to consumers.[31] However, this complaint must be weighed in the light of yet another undeniable fact: that the industry has been allowed to retain a very high proportion of an enormously expanded total income. Thus, if one subtracts the taxes paid by the industry in 1980 from its total income in that year, one finds that its income net of taxes is in the order of $14 billion. The comparable figure in 1976 was about $6 billion, and in 1968 it was about $2.6 billion (see Table 3-A6).

It must be noted that after the 1980 NEP and the 1981 Canada-Alberta agreement (not reflected in the Appendix), the level of taxation increased still further. At the same time, some segments of the industry, while taxed more heavily, also benefited from the multi-billion-dollar Petroleum Incentive Payments (PIP) that replaced the old, pre-NEP fiscal regime. This application of the power of government evoked an even more impassioned debate as to whose ox was being gored and how to define the point at which the tax burden became onerous. The issues generated even greater controversy when it became clear that total revenues were not going to grow as rapidly or be as large as had been originally conceived, at which point the industry began to place renewed emphasis on the arguments that high profits are not simply a reward for past success in exploration and development, but a crucial determinant of future discoveries (see Doern and Toner, 1985, chap. 10; Canadian Petroleum Association, 1984).

In any case, no statistical comparisons of the tax burden borne by the resource industries compared with other sectors can be taken as conclusive evidence of the power of resource industries to win favourable treatment from government and to resist further intrusions by govern-

ment at both levels. The historical advantages enjoyed by these industries in the form of depletion, capital cost allowances and outright grants at the federal level, and low or non-existent royalties and taxes in many of the provinces, must be seen in light of several broader political circumstances of which the resource industries may have been the beneficiaries but were not themselves the source. One of these would be the grand strategy of economic growth through resource development that has dominated the thinking of national governments with regard to the hinterland regions since Confederation; a strategy that even then had precedents and has had much to do with the fiscal incentives and infrastructural supports that resource industries have received over the years from governments in both Ottawa and the provinces themselves.[32] Such attitudes held almost exclusive sway over public policy with respect to the resource sector until at least the late 1960s and early 1970s, and to this day have been only joined, not displaced, by a growing agenda of mitigating concerns and interests. Another explanation, perhaps the simplest of all, would be the fact that it is only in the last decade or so that governments have been badly in need of money; and it must have seemed a reasonable trade-off to both federal and provincial leaders to forego a certain amount of present revenues in favour of industrial expansion, which often happened also to correspond to the geographic expansion of the frontier. It may not be surprising, then, however ironic, that the very geographic and economic marginality of Canada's resource industry establishment has turned out on occasion to be a political asset to the firms involved.

Despite these and other possible qualifications, the capacity of the resource sector to mount political defences when the occasion did arise in the late 1960s and early 1970s is impressive. The success of the mining industry in particular, in deflecting the thrust of the Carter Commission's attempts to render the national tax system neutral, as between various sectors and types of firms, has already been noted. Also of significance are the provincial counterparts to this national experience that shortly followed. During the 1970s, Ontario, Manitoba and British Columbia all legislated increases in their returns from the mining industry, and in all three cases the extra burden on the industry was either limited to begin with, in the case of Ontario, or significantly reduced again by the end of the decade, as in B.C. and Manitoba (see EEC, 1979, 1981a; Owen, 1979; Payne, 1982). This pattern is even being repeated in the oil and gas sector, where the unprecedented increases in royalties and taxes, culminating in the provisions of the NEP and the Alberta-Ottawa energy agreement, are gradually, and certainly less dramatically, receding as a consequence of various amendments, exploration incentives, and operational redefinition of regulations (see Helliwell, MacGregor, and Plourde, 1983). Meanwhile, the pulp and paper industry, playing as it did only a minor part in

the politics of tax policy, as such, during the past 10 or 15 years, has seen the benefit of grants under the federal program for regional economic expansion, a variety of subsidies for capital investment that have come into force during the 1970s, and in particular the direct "modernization" grants introduced at the end of the decade by both the federal and Ontario governments (see Sidor, 1981, pp. 16–23).

The history of the past decade or so of federal and provincial tax and royalty revisions, and tax data showing the net effect of these changes to 1980, combine to suggest that the resource industries have been able to exercise sufficient political power to resist successfully any radical reduction in their privileges under the tax system, although some net reduction has undoubtedly taken place. The industries would protest, of course, as they repeatedly do to governments and the public alike, that these tax advantages, even when they do result in above-normal rates of return, are nevertheless justified, given the special circumstances of their enterprises and in consideration of their reinvestment of high profits in further high-risk exploration, development and growth. This issue cannot be fully examined here, but it is worth noting how often one encounters the criticism among observers of these industries that many of the most controversial tax measures favouring them also have the effect of preventing the entry of new firms or of benefiting larger firms over smaller ones, and arguably represent not a payment for superior economic efficiency but a reward to privilege and greater political power (Anderson and Bonsor, 1984, pp. 41–42; Manitoba, 1973, p. 17).

Regulation, Environment Politics and Public Enterprise

Taxation does not tell the whole story of public-private or intergovernmental politics over the past decade. There has been a considerable increase in regulation, especially in the environmental and, to a lesser extent, in the occupational health areas. This increase has occurred at both levels of government. Similarly, Crown corporations and mixed or joint enterprises have been used to a greater extent than in the past. The decision-making processes to obtain approval for resource developments have become more complex, bureaucratic and costly, involving a wide range of conflicting values. The failure of the Mackenzie Valley pipeline to proceed in the mid-1970s, despite the fact that the Alaska Highway pipeline was later endorsed as a substitute, shows that these new regulations and processes can have important effects at particular times.

While these developments do reflect the emergence of the environmental movement as a political interest, as well as intergovernmental concerns about the ownership and management of resources, it is more important, for the overall purposes of this paper, to point out one of the

most striking features of resource-industry regulation: the close resemblance between the politics surrounding such regulatory issues and the politics surrounding the taxation issue, and indeed how nearly inextricable the two areas are in public policy.[33] One is tempted to say that "the bottom line" for both issues is the bottom line. In other words, the politics of reforestation and environmental protection, for example, become indistinguishable from the politics of taxation because, first, the industry tends to resist stricter regulation on the same grounds that it resists higher taxation — the money to comply is not there — and, second, governments at both levels tend to induce conformity with new environmental standards through tax incentives. Examples are available in the prolonged bargaining involving Inco and the Ontario and federal governments over the company's reduction of sulphur dioxide emissions, and in the fact that the recent "modernization grants" to the pulp and paper industry ostensibly have been tied to the acquisition of pollution abatement equipment (ECC, 1981b). More generally, recent federal tax provisions have tied accelerated depreciation of capital investments to pollution controls.

Another resemblance between environmental regulation and taxation is the disparity they both display between, on the one hand, the fanfare and controversy surrounding the initiation of government attention and action, and on the other, the level of measurable results. In both areas there is a tendency, as one observer has put it, "for policy statements to be high-flown and meaningless for purposes of application" (ECC, 1981b, p. 279). Even though it is easier to assess tax effects than regulatory effects, the divergence between stated government intentions and later achievements must be taken as a measure of a chronic lack of realism on the part of governments; their deliberate deception of the public; the power of industry to emasculate the programs undertaken by governments in fulfilment of their responsibilities to the larger public; or a combination of all of these. Time and again in such matters — and it may be that environmental regulation will provide a larger case-book than taxation — the ultimate resistance of industry to conformance with what has been declared to be in the public interest is based on the implacable constraints of international competition and the inescapable realities of production costs and commodity prices. The significance of the politics surrounding the initiation and, more important, implementation of tax reform, environmental regulation, and other dimensions of government-industry relations over the past 15 years is thus not restricted to the ends and purposes specifically in conflict in each instance. The politics in these areas are also an indication of the scope for effective government action in the face of the political and economic power of the major resource corporations operating in this country and,

beyond them, of the rigidity and strength of the limitations imposed by the international economy and international politics.

Future Prospects

The lessons that may be taken from the development of Canada's resource industries to this point, lamentably, are not very encouraging. Certainly some changes have occurred over the past two decades in the public-private and intergovernmental power configurations. In many respects, however, the development of Canada's resource industries to date is a story of some avoidable policy mistakes and oversights that are not usefully dwelt upon because they are no longer avoidable. For example, it might be said that with a few notable exceptions, such as the resource "heritage funds" established by Alberta and Saskatchewan, Canadian governments in effect have turned over to the private sector the rents available from the extraction of the country's resources; but this realization is not very useful at this stage because whatever rents were once there have by now been pared away by depletion or international competition. At worst, a review of resource policy reveals a set of constraints operating on Canadian policy makers that has been and will continue to be so restrictive that Canadians could not have expected, and should not now expect, much more from the extraction of their resources than what they have actually been getting. For example, it might be said that Canada's dependence on external markets for such an enormous share of its resource income, not to mention total national income, has repeatedly placed governments in this country in a take-it-or-leave-it position with respect to prospective investors and buyers, allowing very little opportunity to bid up the terms on which development and production would take place. To cloud matters further, the question as to which of the two differing perspectives described above is the more valid, either in general or in its specifics, is almost beyond empirical resolution: the observable difference in outcome between a missed opportunity and an opportunity that was never there to begin with is not likely to be blindingly obvious.

With an awareness, then, of the ambiguities involved, our study will proceed to apply some of the lessons drawn from the foregoing discussion to an evaluation of a few of Canada's prospects in the resource sector. Broadly stated, the conclusion is that the potential benefits to be derived from the extraction of Canada's resources are less than they used to be, but that this potential is nevertheless greater than what will be derived unless some changes are made in the approach taken to these matters by governments. To keep the scope of this discussion within manageable bounds, three issues will be addressed: the future marketability of Canadian resources; the taxation of any rents available on

the sale of Canadian resources; and the prospects for increased industrial diversification based on Canada's resource industries. In each case the emphasis will be upon the conflicts between governments, and between industry and governments, that are likely to arise over these issues.

Marketability

Representations from industry as well as some academic and government sources place increasing stress on the difficulties Canadian producers face in traditional markets for Canadian resources (Canada, Royal Commission, 1983, pp. 11, 13–14, 23). Depending on the commodity in question, Canadian producers complain of stiffer local or international competition in the markets of Western Europe, the United States and Japan. Without attempting to assess the truth of these claims of dire circumstances, a few observations from a political perspective seem in order. Perhaps the most obvious is that it is clearly in the interest of producers to put the poorest possible light on their market prospects when attempting to resist government measures that will either increase their costs, such as tougher pollution controls, or reduce their income, such as higher royalties or smaller tax benefits. It would seem, therefore, that governments should make whatever effort is necessary to establish independently the exact extent to which such complaints from industry are the result of an actual decline in their share of traditional markets, as opposed, for example, to a cyclical decline in demand. Further, they should develop a full comparative analysis of their competitive position, including such factors as exchange rates and transportation costs. The capacity of governments for such independent assessment of the economic health of major resource industries and firms can only become more important in future, especially given the increasing inclination of governments to provide various forms of export assistance to other sectors and to engage in ad hoc and highly publicized "bailouts" of individual firms experiencing various sorts of difficulty. At the same time, and perhaps ironically, pressures on Canadian production of some natural resources will be exacerbated by the development of non-Canadian sources through the foreign investments of some of our own more successful firms (see Cairns, 1981a, p. 527; ECC, 1981b).

The literature surveyed in this study suggests that long-term market prospects for some of Canada's resources are not nearly as bleak as they have been made out to be, and in any case there is ample evidence that the argument must be assessed on a resource-by-resource (and probably a market-by-market) basis. For example, Canadian copper looks reasonably healthy, even if nickel may not; not all Canadian forest products are threatened by tropical and subtropical or even U.S. production; Canada still offers the closest source of supply to the world's largest single market for a variety of important resources; and, depending on the

region, Canadian supplies of some commodities can be delivered at lower cost to major American markets than even some U.S. supplies (Whitney, 1980, p. 287; Pearse, 1980, p. 255; Anderson and Bonsor, 1984, chap. 2). (For example, Chicago is closer to Thunder Bay than it is to South Carolina, and most forest products carry very large transportation charges, especially over land. Similarly, California is most economically supplied from Western Canadian sources of natural gas, petrochemicals and hydro-electric power.) In other words, while Canadians and their governments should indeed be sensitive to the challenge presented by new and competitive sources of supply, they should not necessarily take at face value the aggressive pessimism of some of our resource producers. Perhaps this time it really is true that Canadian nickel is no longer competitive; but it is also worth remembering, as Nelles has recorded (1974, pp. 326–35), that New Caledonia has hung like a sword over the mines of Sudbury for generations.

To the extent that generalizations can be made, there is probably something still left to the attitude that "it is not so bad to be hewers of wood, provided you are the best hewers of wood in the world."[34] This is unlikely to be Canada's status over as broad a range of commodities in the future as it has been in the past, but it is also unlikely to be untrue of every Canadian resource. Furthermore, there seems nothing intrinsically wrong with developing an economic strategy around the sale of natural resources, provided sufficient care is taken to guarantee that the country receives full value for the resources it sells. This leads to a consideration of rents on resources and the possibility of industrial diversification based on resources.

Rents

Ever since David Ricardo instructed us that "prices are not high because a rent is paid, a rent is paid because prices are high," disputes have arisen over what, if anything, governments should do when the returns to producers exceed those necessary to sustain investment in the industry (which catches, I think, the modern definition of the notion of rents).[35] This issue is often compounded in relation to Canada's resources, since at times the question has not been whether our producers, especially the foreign-controlled ones, are earning too much, but whether they are earning too little, as they might if they were operating basically to provide raw materials for the manufacture of goods by an affiliate in another country, in which case the rents would not disappear but rather would be passed on to the parent firm in the form of lower supply costs. As we saw earlier, even one of the country's senior economists has despaired of measuring such resource rents with any precision, and this discussion will not attempt to quantify the extent to which Canada has "given away" its resources in the past and might be in danger of doing so in the future. It does seem important, however, to

record a few observations on the politics surrounding the issue of the proper distribution of wealth generated by the extraction and sale of natural resources.

The issue of rents has been largely ignored in the politics of resources in Canada, except in relation to oil and gas. Given that there once certainly were, and at present and in the foreseeable future may still be, substantial rents accruing to Canadian resources, the political reasons for this neglect of them in public debate and government policy deserve closer examination than they have so far received. Essentially, the country's resource industries as a whole appear to have made a convincing case that they are more deserving and appropriate custodians of the wealth from the nation's resources than Canadians themselves; and Canadians have somehow been persuaded to forget or ignore the fact that, by virtue of their citizenship in their respective provinces, they, and not the companies, are the owners of these resources and are entitled to be paid full value for their consumption. Despite the fact, as Eric Kierans was wont to tell us, that "you cannot nationalize what you already own," Canadians seem on the whole to feel that it is mildly socialistic and anti-business, as opposed to simply "good business," to insist that corporations pay the people for the transfer of their property — an attitude that one expects these people would not extend to their other possessions, such as their houses, cars, and lots by the lake.[36] While one can only speculate, it is likely that this failure of Canadians to assert the rights pertaining to their ownership of natural resources results primarily from the fact that resources belonging to the Crown are in fact the common endowment of the residents of the various provinces, and it is perhaps not surprising that Canadians are less possessive about their public property than about their private property.

More importantly, corporate arguments have insisted that the most significant potential return to Canadians from their resources is the creation of jobs, that the key to jobs is investment and growth, and that the key to expanded investment in resource industries is high profits to established producers; and governments have generally concurred in this view. Moreover, corporate declarations have often managed to create the impression that Canada's resource industries, far from enjoying the excessive profits claimed by some, are in fact in only marginal economic circumstances and are unlikely to survive a significant reduction in their tax allowances, let alone an increase in royalties and taxes. As we saw earlier, this attitude is especially dominant in the present climate, but even when circumstances might strengthen the public's determination to extract a higher return from resource producers, government action may be frustrated by yet another obstacle: the fact that the Crown's rights in resources are invested in the provinces means that Canadians often feel in competition not only with the rest of the world for resource development, but with Canadians in other provinces, an

attitude that stands in the way of an aggressive approach to negotiations with industry.

Finally, public pressure on provincial governments to impose more exacting royalties on resource companies is generally kept low because of a prevalent feeling that whatever surpluses may be generated by the extraction of resources must appear as corporate income and profit, and that therefore corporate taxes are a sufficient means of ensuring a return to the public sector. Canadians tend to ignore both the possible effects of transfer pricing on the taxable income of the resource firm and the possible dissipation of rents in surplus production and processing capacity, excessive corporate bureaucracy, and unrelated, unproductive investments. In short, having transferred their resource wealth to the private sector, Canadians seem to accept on faith that the further employment of that capital by private firms is geared to its most socially productive uses. At the very least, they do not appear to accept the idea that they themselves, through their governments, could make more productive or appropriate use of the surpluses derived from their resources if they took more of them out of the hands of producing companies and exercised their own judgment concerning the most promising future use of such funds.

The difficulties presented by these three general attitudes are further complicated by other major political realities that stem from constitutional imperatives and Canadian economic and political history. The fact is that ownership of resources does lie primarily within provincial jurisdiction, and that Canadians as a whole do not make decisions about the resource industries. A study by Richards and Pratt and a host of other historical accounts show how pervasive the alienation and distrust is, for example, between Western and Central Canada, and how resource issues have consistently intensified the conflict between the two regions. As a result, the issues reviewed above are generally perceived in regional rather than in purely resource terms (see Richards and Pratt, 1979; House, 1982, pp. 12–13; Doern and Toner, 1985). Political analysis also suggests that there is no easy "one to one" connection between provincial governments and their citizens as owners of resources (Chandler and Chandler, 1979, chap. 7). Certainly, from time to time elections have been fought over resource issues, but this broadly based participation is then followed by more routine, inter-election politics in which the sustained pressure of particular interests becomes more important. Finally, as Doern and Phidd (1983, chap. 16) point out, resource questions at any given time have to compete with a range of other priorities simply to appear on the policy agenda at either the federal or the provincial level. All of these factors serve to reduce the negotiating leverage that governments have with respect to the resource issues reviewed here.

As a consequence of these constraints, one of the few areas in which Canadians appear prepared with any consistency to interfere with the

practices and prerogatives of private firms in the resource sector is the degree of processing undertaken before resources are exported, an attitude in keeping with the aforementioned notion that what Canadians want most out of their resources is not wealth but jobs. So widespread and so frequently misguided is this notion that it receives its own discussion below. Meanwhile, it seems possible to conclude about rents that, even if Canadian resource industries do face a promising and prosperous future, despite the above-mentioned gloom about markets, there will not be significantly greater opportunity than at present for governments to increase their share of that prosperity, short of the kind of near-miraculous windfall gains experienced by the petroleum industry in recent years.

Diversification

On at least one occasion, John Dales has expressed exasperation with what he sees as an excessive Canadian preoccupation with forward and backward linkages in the economy, and with the often misused notion of "value-added," as if we would all be better off if it took three tons of coal and 100 workers to produce a micro-chip.[37] Bucovetsky strikes a similar chord when he observes, neatly, that what we are concerned with is not the value of inputs but the value of output (1973, pp. 12–13). Eric Kierans has much the same attitude toward the refining and processing issue, pointing out that an insistence upon the upgrading of resources is often a poor way to capture benefits from the resource base because it can result so quickly in excess refining capacity and the overcapitalization of rents (Manitoba, 1973, p. 33). None of these arguments, however, appears to have reached the ears of Canadian governments or the public in any sustained way, and the idea that Canada can industrialize through more extensive processing of the country's resources has wider support than most such broad economic prescriptions (Canada, Royal Commission 1983, pp. 10–11; 1984, pp. 16–17, 50–51). Several considerations cast doubt on both the desirability and feasibility of this strategy.

We have already seen that a variety of locational factors and some political factors, such as the tariff structures adopted by most advanced economies, including our own, tend to favour the export of many Canadian resources in a raw or semiprocessed state. Given these limitations, it may be futile or highly wasteful to make higher levels of processing a priority in setting the terms and conditions attached to the exploitation of the resource base, especially if it means making concessions on other questions such as royalties, income taxes and pollution controls. As Kierans showed with respect to the mineral wealth of Manitoba, the refining of those minerals was not the most profitable part of the mining industry in the province; the real surpluses were generated by the primary conversion of the raw material into a marketable commodity

(Manitoba, 1973, p. 19). Pearse saw something akin to this for certain lines of wood products in British Columbia, which might actually show the highest possible return to the industry and the province when sold to Japan as saw logs rather than when converted into various end products (1980, p. 462). Nickel refining is in excess capacity in Ontario already, as is the petrochemical industry in Canada as a whole (Cameron, 1980, p. 74 – 75; Clarkson, 1982, p. 135). In sum, it appears that the appropriate way to think about the relationship between end-product manufacture and Canada's resource base is to ask not what end-product manufacturing might be developed around the presence of this or that resource, but rather what end-product manufacturing — already justified on other economic grounds — might be further advantaged by the local supply of this or that resource input (see Wilkinson, 1985). Otherwise the sensible course appears to be to obtain as much public revenue as can be generated by the sale of the resources in whatever form they are most marketable, and then to make independent decisions with regard to the most productive further investment of that income.[38]

There is, of course, another way of expanding the industrial activity linked to resource extraction, in addition to the generation of downstream production, and that is to increase the backward linkages between our resource enterprises and other sectors — say, machinery manufacturers -- or, to put it another way, to ensure that as much of the input into these industries as possible is of Canadian origin. This was the main strategy behind the investigations and recommendations of the Major Projects Task Force (Canada, Major Projects, 1981), which placed a great deal of emphasis on the potential benefits to Canada that would accrue by increasing the Canadian content (e.g., project engineering) of major undertakings in the resource field, and especially in energy development.[39] We noted some of the past deficiencies of our resource producers along these lines in the section on background conditions and traditions, and little will be added here except to say that a series of studies of the performance of foreign-controlled corporations in Canada have detected a greater propensity to import on the part of such firms as compared with equivalent Canadian-owned producers.[40] If this is true in general of foreign-controlled firms, it would suggest that, with respect to foreign-controlled resource producers in particular, there may in fact be some room to promote what might be called "sectoral import substitution." As in all import substitution strategies, however, efficiency and welfare losses may be connected to this approach if it means that Canadian resource producers are not obtaining supplies, services and components at the lowest possible cost.

In short, while the Canadian content requirement has a certain obvious appeal if it is designed to eliminate discrimination against competitive Canadian producers of certain goods and services, it has very different implications if it is intended to discriminate in favour of

Canadian suppliers regardless of price, as any minimum Canadian content requirement is almost bound to do if it is high enough and made into a hard and fast rule. Here, the debate simply resolves into a version of the classic one of free trade versus protectionism, which is better discussed elsewhere. One is tempted to observe, nonetheless, that Canada seems already to have spawned generation after generation of "infant industries," and that many of Canada's earlier infants — still protected — somehow managed to become geriatric without ever having matured.

Resource Politics: Ideas, Interests and Power

If we had nothing to look at but the politics of oil and gas over the past ten years, we might be inclined to say that resources have been one of the principal sources of intergovernmental conflict and government-industry conflict in the country and that the distribution of revenues from Canadian resources have been one of the most contentious and divisive issues the country has ever faced. While true in themselves, such observations would be misleading if they were generalized to the other resources examined here, over the past four decades, or even to oil and gas prior to 1973. In fact, what is remarkable about the politics of these other sectors, as distinct from oil and gas from 1973 to 1984, is precisely how little intergovernmental conflict and government-industry conflict there is to report, especially on the question of revenues and rents. The major exception is the Carter Commission report and the white paper on taxation; and even here, the tax policies that were actually in place by 1974 must be taken as a rejection of Carter's approach and an endorsement of the industry view that it deserved special consideration, especially regarding capital expenditures and the depletion of mineral reserves.

In short, with one major exception, the generalization that best fits the evidence of the past 40 years is that the politics of resources in Canada have not exhibited intensely conflicting ideas or sharply divergent public and private interests in the revenue and taxation areas. They have reflected, rather, the force of the basically unchallenged idea that large corporations — whether controlled within or outside the country — are the proper custodians of Canada's resources and the most reliable directors of their development. Despite some increases in taxation in the 1970s, governments have been largely content with relatively low taxation of the income of these firms, rather than direct payments for the resources themselves; and the constituents of these governments (at both levels, it would seem) have appeared content with the indirect benefit of the jobs created through the development of the resources, rather than the direct benefit of a larger share of the surpluses generated by their sale.

If there are any conflicts remaining within this broad consensus of ideas of compatibility among major interests, they tend to be marginal when viewed over a broad historical period. As between ideas, the consensus described here has encountered some criticism, but even that is a matter more of degree than of kind: resource industries, it has been argued, have not generated enough employment and could pay higher taxes and show more concern for the environment. There simply does not appear to be widespread support for policies and approaches that would transfer, in some absolute sense, various prerogatives of the private sector to the public sector, such as through extensive public ownership or the uncompromising enforcement of rigorous environmental control.[41] The talk one has heard over the past decade or two about "management," "consultation," "coordination," "cooperation," and "interfacing" is undoubtedly indicative of some competition in the interregional and partisan contexts over the exact roles to be played by different levels of government, by various departments of government, and by government and the private sector; but it is not clear evidence of directly opposing purposes.

The point to be made here — in a study of the politics of resource policy and the underlying relationships of power involved — is that all the pushing and hauling of the past ten years or so have not basically altered the structure and essential components of the existing regime.[42] The private sector, even in the oil and gas industry after the NEP, retains the predominant role in the exploitation of Canadian resources. These industries are marked by a high degree of corporate concentration; the largest firms are both rewarded and protected by a system of taxation that favours the resource sector over many other sectors, and large, existing firms over small firms and new entrants; tax incentives and grants are utilized far more extensively than punitive enforcement as instruments of policy; externalities are more frequently absorbed as social costs than regulated into corporate costs; and governments compete with one another more in their generosity to the private sector than in their constraints upon it, leaving serious intergovernmental conflict to the issue of constraints on the opposite level of government.

In these essentials, then, the politics of resource policy in Canada have not changed much throughout the postwar period. If there are significant changes looming, they lie more in the international environment than in the domestic setting. Past experience informs us that if the international environment worsens, the industries examined here may well succeed in parlaying real or perceived increases in international competition into the reversal of even the modest public gains of the 1970s with respect to taxation and environmental protection. In any case, one is inclined to ask whether this past and predicted quiescence of government is most accurately regarded as a product of satisfaction with the industries' record to date on the part of governments and their constitu-

ents; as a form of resignation in the face of limitations that have proven too severe to allow more assertive action; or as a conscious refusal on the part of governments to assume full responsibility for more aggressive public leadership. This question carries the discussion back to the beginning of this survey and the problem of export market dependency and other circumstances limiting the scope for effective action by Canada's policy makers. However, the conclusion here is that such limitations are partly, but only partly, responsible for the inadequacies of Canadian resource policy. Some responsibility does lie with a failure of political leadership and institutional arrangements, even after allowance is made for certain constitutional constraints.

In a single sentence, the argument here is that the record of Canada's resource development could be considered one of missed opportunities stemming from shortcomings in political leadership and appropriate institutional arrangements — even acknowledging the effects of market dependency and other physical and economic constraints, and despite the additional complexities introduced by the division of powers and the geographic, cultural and economic regionalism that the Constitution in part reflects and in part reinforces. This is not to say that these policies have been an unmitigated disaster, for Canada's resource base and the strategies that have been pursued in its development have played an important part in achieving and sustaining one of the highest standards of living in the world. Deficient political leadership, however, has resulted in net benefits to Canadians from the exploitation of their resources that have been lower than they might have been.

In other words, the development of Canada's resources has taken place at higher cost than necessary and for smaller benefits than possible, with the difference often being taken up by higher than normal levels of corporate income, and by high industrial concentration, underpriced exports, unwarranted imports, inefficient rates and timing of utilization, and unnecessary and unrepaired damage to the environment. Canadians have had to pay the price of such outright losses and foregone gains whenever their governments have failed to take advantage of opportunities to drive a tougher bargain with those private (and some public) enterprises seeking to exploit Canada's resources, and have failed to improve the terms under which this development has taken place. The hard political reality of Canadian resource development is that governments have frequently found it easier and more advantageous to defend corporations against the interests of the Canadian public than to protect the Canadian public from the interests of corporations.

To counter this critical assessment of Canadian governments and the orientation of their resource policies, there are at least two fundamental lines of argument. One of these, stressing political and constitutional realities, would object that the charge of a failure of political leadership overlooks the question of jurisdiction over resources: at the federal

level, according to this line of argument, there is not so much a lack of will and action as a lack of authority; while at the provincial level, where there is the authority, there is also sufficient evidence of will and action -- especially in recent years — to discredit the charge of inadequate government leadership. The other argument, stressing economic realities, would object that the charge of government failure at either level presupposes a wider degree of scope for government action than has actually been there; and in any case, the argument that losses have been suffered through the inaction of government cannot be based on any sound empirical evidence, since we shall never know what would have happened if governments had acted differently, or even know for certain what alternative courses of action were in fact feasible, given the circumstances at each given time in the past.

The second of these objections, with its appeal to economic constraints, demands a direct response because it touches so closely a good part of the analysis presented in this paper. The preceding analysis has been, if anything, rather pessimistic about the room that Canada's resource base and economic circumstances leave to government discretion and action with respect to industrial diversification, marketing, and other areas of concern. A dependence on exports in particular places severe constraints on Canada's freedom of action, directly and indirectly, across a wide range of theoretically attractive economic options — a reality recently driven home by the sudden and almost total demise of the entire mega-project strategy in the face of high interest rates and softening markets for energy in the United States and worldwide.[43] The evidence presented in the preceding analysis, however, also includes instances where room for more assertive action by governments was there and may still be there — instances that are particularly telling when they show governments initiating action and then withdrawing under pressure from industry, whose own arguments and evidence on many occasions have not appeared to be especially compelling. What is more, notwithstanding the logical case against counterfactual arguments — or perhaps precisely because of it — it is difficult to look back on the long Canadian tradition in this area and fail to notice the scarcity of occasions that would clearly demonstrate, through the unmistakable failure of concerted efforts to effect basic change, the alleged insurmountability of the economic constraints facing Canadian governments.

We are left, then, with the question of political will, and the objection that a charge against Canadian governments of a failure of leadership must either expect more at the federal level than the Constitution warrants or acknowledge less at the provincial level than experience has actually shown. A reply to this objection must begin by conceding that there is indeed some observable correspondence between effective action and the presence of authority, as well as between the lack of action and the absence of authority. The fit, however, is far from exact. Not only

does the Constitution afford the central government a share of control over many crucial aspects of resource development, especially insofar as these are frequently developed as commodities for international trade, but the federal government has shown on several important occasions that where it has the will, it will find the authority. That authority will be found if not constitutionally — as with such "works to the general advantage of one or more provinces" as uranium mines and grain elevators — then politically; several aspects of the federal government's energy policies since 1973 have been loudly protested as invasions of provincial responsibility, though not legally challenged with any success.[44] Again, the case being argued is not that Canadian governments have done nothing, but that they have done less than they might have done to improve the net benefit to Canadians from the use of their resources. The Canadian Constitution has no doubt played its part in this reluctance of governments at both levels to apply their powers more directly against the prerogatives of resource enterprises, but other factors — most notably the foreign control and more general continental orientation of the Canadian economy — have proven to be fundamental causes of economic disparity and political discord.

Foreign corporate control and the overwhelming importance of North American trading patterns create several circumstances that have contributed to a number of the features of Canada's resource economy highlighted in this discussion. Among these would rank quite highly the distinctive Canadian traits of regularly failing to perceive instances where Canadian and U.S. interests are fundamentally at odds, and, when such conflicts are perceived, of underestimating Canada's capacity to ensure that its interests prevail. The basic orientation of Canadian political life — and more particularly of the leadership of both major political parties and, not coincidentally, the Canadian corporate establishment — has usefully been labelled "continentalism" by a school of its critics. This term does connote an appropriate sense of the pervasive and mutually reinforcing elements of U.S. impact on Canadian politics, which run from geography, through international security in a nuclear age, to culture and economics, including the extraction and sale of resources.[45] Coinciding with this orientation and reinforcing it is a political condition Canada has in common with other wealthy, democratic countries: the increasing concentration and hierarchical ordering of political and economic power and marked tendencies toward accommodation between the economic and political elites.[46]

Like other large industrial and financial firms throughout the free enterprise system, many large Canadian companies are growing all the time (Kierans, 1980). In Canada as in other countries, these giant firms and industries have had little difficulty, exceptional circumstances excluded, in maintaining a political environment that is amenable, or at least not inimical, to their central interests and objectives. What needs to

be noted here is that Canada is alone among industrialized countries in that nearly half of its largest 100 firms are foreign controlled.[47] Even if there were no directly observable political effects of this situation in the case of large foreign-controlled resource companies, foreign-controlled firms in general are obviously near enough to the centre of political and economic power to deflect the force of whatever "anti-continentalism" or economic nationalism may surface from time to time in Canadian political life. Meanwhile, a parallel U.S. presence in the dissemination of information and culture in Canada adversely affects the potential for indigenous development in this area. The imposition of strict terms and conditions on either the export of natural resources or the practices of foreign-controlled resource enterprises is extremely difficult to achieve in a country in which nationalism feeds on such a meagre diet, and economic nationalism in particular receives so little support.[48]

One conclusion to be drawn from this somewhat melancholy analysis is that there are not many worthwhile and feasible changes to recommend in Canadian policies, institutions and constitutional provisions relating to the exploitation of Canadian resources. This is partly because many policies and approaches that would once have been both wise and possible may still be wise but are no longer possible. It is also because the only changes in policy, institutions and constitutional provisions that are likely to be of any genuine significance and effect are precisely those that either presuppose or promote a weakening of the continental determinants of Canada's economic and political life.

Quite apart from their defeat of expressly nationalistic interventions in the resource sector, U.S. capital and markets have shaped a pattern of resource development and fostered an economic structure in Canada that has frustrated the effective application of standard instruments of national economic policy. Observers of Canadian history have stressed the crucial consequences for Canadian economic unity and political integration of the shift from the east-west axis of economic activity, predicated on the export of staple commodities to Europe, toward the north-south axis of economic activity brought on by the later export of still other staple commodities to the United States (Innis, 1956; Aitken, 1961; Stevenson, 1974a). One perhaps should say "axes" of north-south activity, for ties between Canada and the United States have often taken the form of several sets of exchanges almost exclusively between individual provinces or regions of Canada and adjacent regions of the United States. These ties have thus widened the separation between Canada's regions and exacerbated both the economic conflicts of interest among the various provinces and the political disputes between the central and provincial governments over the setting of national priorities.[49]

Among the specific consequences of this pattern in the realm of economic policy, four appear most important in the context of this study. First, there is the near impossibility that any national policy or single,

integrated set of national policies will have equal incidence across the country and result in an equitable distribution of costs and benefits among the provinces. The second consequence is the ever-greater dependence of the resource-producing provinces on an economic base of one or two resources, and the more intense provincial involvement in the development of that base, frequently as compensation for (or protection from) the perceived disadvantages stemming from national policies. Third, is the increasing, related tendency for the provinces to attempt to restrict the opportunities created out of resource development to established residents in their province. Finally, there is growing competition among provinces to attract or retain foreign investment.

The first of these consequences can be seen in the traditional regional complaints about the tariff and other elements of the National Policy, and in the more recent differences among the regions on the question of restricting foreign investment.[50] The second is evident in the recent use of provincially owned resource corporations, which have frequently been established to blunt the intrusion of federal policy into resource development and/or to ensure provincial capture of rents and other benefits (Cairns, 1984; Doern and Prince, 1984; Laux and Molot, 1981). The third appears in the various "provincial content" provisions that have become more common in recent years (and appear to have provided a significant part of the rationale for the establishment of this Royal Commission).[51] The fourth is perhaps most clearly reflected in the tendency for provincial governments to relax the terms and conditions that some of them were prepared for a time to apply to the operation of resource enterprises.

Toward a New Resource Policy Regime

In the abstract, the most effective policy for dealing with the existing climate of economic conditions and political forces and attitudes appears to be one that combines the decentralization of political decision making with the preservation or extension of minimum nationwide standards of resource development and nationwide distribution of the benefits generated by that development. There would seem to be few approaches to resource development that could fulfil, or balance, these two conditions of decentralization and uniformity. One feasible and potentially significant policy change that could come about in this manner is the pooling of provincial resource revenues or, amounting to the same thing, the interprovincial sharing of resource rents. This arrangement would serve to enhance the awareness of Canadians as a nation — and not just as an aggregation of provincial resource prospectors — of the importance of their collective resource endowment and its future use and development.

One of the key advantages of rent sharing is that it would amount to a program achieved through the efforts of the provincial governments themselves to promote greater national equality in the treatment of resource revenues. Much of the acrimony that plagued federal-provincial and interprovincial relations concerning oil and gas in the past decade had to do with the feeling in the producing provinces that it was only their resources that were being subjected to national priorities by the central government, even though they were prepared to concede that other Canadians had some legitimate claim on the extraordinary income generated by oil and gas. Alberta, for example, wondered on many occasions why the federal government did not tax the export of another energy source, electrical power (ECC, 1982, chap. 5). Moreover, several of the policies adopted by the federal government for redistributive purposes met with strong objections not simply because of their dollar cost to the producing provinces, but also because they carried an implicit challenge to the right of these provinces to their resources. A revenue pool established by the provinces themselves and incorporating the income from all resources could help avoid these pitfalls and yet give tangible expression to the principle of economic equality across Canada, which Canadians in every province appear to support. Rent sharing also seems a superior way of achieving more uniform provincial revenues than is likely to result from the current tortuous attempts to accommodate the equalization formula to exceptionally large oil and gas incomes for a very small number of provinces.

Canada's equalization program is itself a very large and complex subject, one that has contributed additional tensions and frustrations to the federal-provincial and interprovincial conflicts in the resource field over the past 15 years. For the purposes of this discussion, and given the fact that the program has received extensive and exclusive attention from specialists contributing to the Commission's research, it is necessary to highlight only two features of equalization that have proven most troublesome in recent years. The first notable fact is that a substantial portion of resource revenues has not been incorporated into the scheme, and this seems to fly in the face of the program's most straightforward objective: ensuring that the per capita revenues available to the provinces across Canada are not subject to severe disparities owing to the uneven distribution of tax sources. Equalization is designed so that each provincial government in Canada can enjoy per capita revenues equal to the national average tax rate times the national average tax base (Courchene, 1983).

The second troublesome feature of Canada's equalization program, one that promised to bankrupt the federal government as oil and gas revenues skyrocketed during the 1970s, is that it is not, in fact, a provincial revenue-sharing program but is instead a program financed by

the federal government out of its general revenues, albeit at levels determined by the revenues accruing to the various provinces with above average incomes from various sources. Hence, when high levels of resource income, for instance, accrue to some provinces and not to others, the result is that the federal government faces a steep rise in the payments it is obliged to make, without any corresponding increase in its own income from that source. (This anomaly, whereby provincial income from natural resources can increase the liabilities of the federal government without any related increase in its capacity to meet them, is of course one reason for the first-mentioned feature of excluding certain resource income from eligibility in the scheme.) Given the plan's fundamental objective of bringing about greater uniformity in the capacity of provincial governments to meet the needs of their residents, there appears to be some merit in the idea of providing for the redistribution of such revenues among the provinces in the first instance, as opposed to entering time and again into the politically and fiscally messy business of modifying the formula for federal payments in the wake of periodic and fortuitous increases in the resource-based income of various provinces (Courchene and Copplestone, 1980).

In addition to these political advantages, the revenue pool idea has a key economic advantage that addresses several of the problems discussed in this study. Perhaps most important, it would strengthen the economic position of all the provinces, especially those heavily reliant on resource income, by reducing the degree of their dependence on one or two of their own resources for their prosperity. This would protect them not only from the disastrous possibilities of the total decline of a key industry, but also from the more regular setbacks represented by cyclical fluctuations in their resource markets. The most debilitating effects of market dependency on provincial governments, stressed here and elsewhere, would thus be somewhat reduced. Specifically, a revenue pool might buttress the bargaining position of each of the provinces in setting the terms under which firms engage in new developments, since the prospective value of each development would be less critical to the economy of the provincial government concerned.

The proposal, of course, is no panacea, and it is not without its own difficulties. The assessment of resource income that should count as provincial revenue and be subject to pooling is problematic (Scott, 1977, pp. 68–69; ECC, 1982, chap. 4). There is also the possibility that governments will feel less motivated to insist on the best possible terms when they know they will not be the sole beneficiaries of developments that take place, although this problem might be mitigated by the strengthening of their capacity to bargain and by the fact that other provinces might be inclined to object to any observable shortcomings in such terms and to insist, for their own sake, that they be improved. Finally, special provision might be necessary for provinces that either just have bene-

fited or are just about to benefit from a new and unusual increase in their economic fortunes, since they might legitimately complain that sharing is about to start at precisely the point where their own situation is finally improving.

However, the most compelling case for the recommendation of a resource-sharing pool in the context of the political and economic challenge facing Canada is that it would afford a chance to reduce the number and intensity of interprovincial and federal-provincial conflicts, as opposed to creating a mechanism, procedure or set of institutions for resolving such conflicts more smoothly. The idea stems from the conviction that no institutional or constitutional change realistically imaginable can produce unity in the absence of shared purpose and common endeavour on the part of the constituent units of that union. Revenue sharing, as a question of political commitment, should require a degree of shared purpose among the provinces no higher than that required to achieve anything of common value to the people and governments of the country.[52] The arrangement would, as a bonus, represent a single effort in interprovincial agreement that would promise ongoing dividends in the reduction of future disagreement, because it would give the people in every province a stake in the resource development of all the others and, as a corollary, reduce the pressure on provincial governments to compete with one another for resource projects. There would be less temptation for the provinces to try to outdo one another in the generosity of their treatment of potential investors, and this would improve the net benefits from all resource developments. Meanwhile, the federal government would have ample room to exercise its powers in other areas that relate to resource policy. In short, a revenue pool would diminish the "zero-sum" character of interprovincial and federal-provincial relations in the resource field, and would encourage Canadians to think more than they have in the past about the shared benefits of common undertakings. In view of the material examined in this study, there appears to be no other single change in the approach Canadians take to their resources that would do more to strengthen the economic union and brighten the development prospects for the country.

APPENDIX

Overview of Resource Policy Trends, and Selected Corporation Taxation Statistics

TABLE 3-A1 Overview of Resource Policy Trends Since 1945

	1945–60	1960–73	1973 →
Canadian Federal			
O&G	+EX(Oil) −I(Gas) +FI −EX(Gas) −EP −T	+EX −I −EP +FI −T	+EP −FI −T(1974) +T(1980) −EX −I
P&P	+FI −T −I(Paper)	+FI +T −I(Paper)	+ENV −T(1974) −I(Paper)
MIN	+FI −T	+FI +T	−T(1974)
Canadian Provincial			
O&G	+EX +FI −T −EP	+EX +FI −T −EP +ENV	+EX +UPG +FI +ENV +T +EP
P&P	+EX +UPG +FI	+EX +UPG +ENV +T +FI	+EX +UPG −T +ENV +FI
MIN	+EX +UPG +FI	+EX +UPG +ENV +T + FI	+EX +UPG −T +FI +ENV
U.S. National			
O&G	+FI −I	+I +ENV +FI	−FI −ENV −I
P&P	+FI	+ENV	−FI −ENV
MIN	+FI −I	+FI +I +ENV	−FI +I −ENV

Source: Data taken from Tables 3-A2, 3-A3 and 3-A4.
Notes: Policies directed toward higher (+) or lower (−): Imports (I); Environmental Protection (ENV); Export Volumes (EX); Export Prices (EP); Foreign Investment in Canada (FI); Upgrading (UPG); Taxation (T); Oil and Gas (O&G); Pulp and Paper (P&P); Mining (MIN).

TABLE 3-A2 Resource Policy Trends — Oil and Gas

	To 1960	1960s	1970 →
Federal	1955 Gas imports controlled	1961 National Oil Policy	1974 Deductibility of royalties ends — 25% resource allowance introduced
	1956 Trans-Canada Pipelines 1958 Borden Commission recommends NEB	1967 Carter Commission Report	1974 Petroleum Administration Act leads to pricing power Petro-Canada established
	Taxes: Depletion allowance—33 1/3% of production profits; 3-year tax holiday; royalties deductible	Taxes: No major changes	1980 NEP "Earned" depletion Petroleum Incentive Payments
Provincial			
Alberta	1949 Gas Resources Conservation Act		1971 Clean Air Act 1972 Clean Water Act 1972 "Natural Resource Revenue Plan" — incremental royalties
	1954 Alberta Gas Trunk Line Royalties: Oil — 16 2/3% Natural Gas — 15% of sale value	Royalties: Natural Gas and Oil — 16 2/3%	1973 Royalty ceilings lifted Petroleum Marketing Commission 1974 Alberta Energy Co. Ltd. 1975 Royalty increases: Oil — 27% — 36%; Natural gas — 50% 1976 Heritage Savings Trust Fund
B.C.	1957 Mineral Act amended No royalties collected		1974 Mineral Royalties Act Mineral Land Tax Act Amendment to Petroleum and Natural Gas Act B.C. Petroleum Corporation 1976 Mineral Royalties Act repealed (except for fuels and iron ore)

TABLE 3-A3 Resource Policy Trends — Pulp and Paper

	To 1960		1960s		1970 →	
Federal	1949	Canada Forestry Act	1965	Area Development Incentives Act (ADIA): DREE	1970	Fisheries Act
						Canada Waters Act
			1969	ADIA becomes Regional Development Incentives Act (RDIA)	1971	Fisheries Act revised
						Clean Air Act
					1974	Forest Industries Development Commission
					1978	Board of Economic Development Ministers (BEDM)
					1979	BEDM grant — $235 million support for pulp and paper industry
Provincial						
Ontario		Restrictions on export of saw logs	1967	ARDA provisions for agricultural land to revert to Forestry	1971	Ministry of the Environment established
					1972	Ministry of Natural Resources formed out of Departments of Mines and Lands and Forests
	1941	Reorganization of Department of Lands and Forests	1963	Crown Timber Act amendment returns reforestation to government		
	1947	Forest Management Act	1965	Ontario Water Resources Commission issues quality deadlines	1979	Treasurer commits $100 million to pulp and paper industry for modernization and pollution abatement
	1952	Crown Timber Act				
	1957	Reorganization of Department of Lands and Forests	1966	Woodlands Improvement Act		
B.C.	1945	Sloan Commission	1960	Forest Act amended	1971	Forest products pollution control objectives issued
			1967	Pollution Control Act	1976	Pearse Commission Report
					1978	New Forest Act

Table 3-A4 Resource Policy Trends — Mining

	to 1960	1960s	1970 →
Federal	Depletion allowance — 33 1/3% of production profits 3-year tax holiday on new mines	Provincial taxes on income from mining deductible Capital cost allowance: 30% on equipment 100% on mineshaft Depletion — 33 1/3% 1962 Carter Commission Report	1971 Clean Air Act 1972 Cabinet order on "Best Practicable Technology" 1976 "Earned" depletion 1974 Deductibility of provincial royalties ends — 25% resource allowance introduced 1978 Deductions increased
Provincial			
Ontario	1952 Mining access roads grant — $1 million per annum 1956 Prohibition on mining in provincial parks Note: Historic mineral processing law	1967 Air Pollution Control Act Taxes: $10,000–$1 million — 6% $1–$5 million–11% $5 million + — 12% Processing allowance — 8%–20%	1970 Mining access roads receive $5 million per annum 1970 Ministerial order to Inco to reduce emissions 1971 Environmental Protection Act replaces provincial legislation 1978/1980 Orders to Inco reduced and extended 1979 Mining tax reductions to maximum of 30%
Manitoba	Taxes: First $10,000 — 6% Second $10,000 — 7% Third $10,000 and over — 8% Base Metals: 20%–40% deduction from net profit	Taxes: Up to $1 million — 6% $1–$5 million — 9% $5 million + — 11% Tax reduction for first 3 years on new mine — 50%	1970 Royalties increased; Crown corporations provided for 1972 Clean Environment Act (1975) leads to regulations 1973 Kierans Report 1974 Royalties increased 1975 "Two-tier" royalty — 15% and 35% 1979 Profit tax reduced to flat 18%

TABLE 3-A5 Selected Resource Corporation Taxation Statistics, 1968, 1978 and 1980 in $ Millions

	Paper and Allied Products			Metal Mining			Mineral Fuels			All Manufacturing		
	1968	1978	1980	1968	1978	1980	1968	1978	1980	1968	1978	1980
1. Book profit	165.6	849.7	1,632.5	391.9	790.4	1,982.4	280.1	1,854.0	3,710.8	1,854.6	6,549.1	9,596.6
2. Book profit before taxes	284.2	1,222.3	2,496.0	497.4	1,147.9	3,270.2	339.9	3,050.0	6,026.9	3,191.3	10,095.3	15,219.3
3. Taxable income	152.7	628.6	1,382.4	84.9	299.2	1,221.2	46.3	1,728.1	2,629.4	2,270.5	6,665.5	10,891.6
4. Taxable income as % of book profit before tax (4 ÷ 3 × 100 =)	53.5	51.4	55.4	17.0	26.0	37.3	13.6	56.7	43.6	71.7	66.7	72.6
5. Federal and provincial income taxes paid	84.2	230.9	511.5	39.2	132.8	580.8	37.7	703.1	1,047.3	1,059.1	2,517.9	4,272.4
6. Taxes as % of book profit before tax (5 ÷ 2 × 100 =)	29.6	18.9	20.5	7.8	11.6	17.8	11.1	23.0	17.4	33.2	25.7	28.4

Sources: Statistics Canada, *Corporation Taxation Statistics* for 1968, 1978, 1980, cat. no.61-208 (Ottawa: Minister of Supply and Services Canada); Statistics Canada, *Corporation Financial Statistics* for 1968, 1978, 1980, cat. no.61-207 (Ottawa: Minister of Supply and Services Canada).

TABLE 3-A6 Selected Resource Corporation Statistics, 1976 and 1980

	1976			1980		
	Paper and Allied Products	Metal Mining	Mineral Fuels	Paper and Allied Products	Metal Mining	Mineral Fuels
			($ millions)			
Total Income	9,460.6	5,454.0	8,374.8	17,318.2	11,241.3	19,834.4
Net profit before tax	583.5	772.1	2,165.8	2,469.1	3,270.3	6,052.5
Profit as % of income	6.2%	14.2%	25.9%	14.3%	29.1%	30.5%
Taxes Paid						
Federal	98.2	75.5	520.7	334.0	423.1	879.7
Provincial	45.8	27.9	121.9	177.5	157.7	167.5
Royalties	26.7	67.7	1,223.0	46.2	1,137.9	4,021.7
Other	32.3	30.0	24.1	28.3	28.8	56.4
Total tax	203.0	201.1	1,889.7	586.0	746.7	5,125.3
Taxes as % of profit	34.7%	26.0%	87.2%	23.7%	22.8%	84.7%
Taxes as % of income	2.1%	3.7%	22.6%	3.4%	6.6%	25.8%

Sources: Statistics Canada, *Corporation Taxation Statistics* for 1976, 1980, cat. no.61-208 (Ottawa: Minister of Supply and Services Canada); Statistics Canada, *Corporation Financial Statistics* for 1976, 1980, cat. no.61-207 (Ottawa: Minister of Supply and Services Canada).

Notes

This study was completed in October 1984.

1. For discussions of the points touched on in this list of developments, see Aitken (1959; 1961); Cameron (1980); Downey (1977); McDougall (1982); Whitney (1980).
2. See, for example, Gibbons (1984). See also Wilkinson (1985).
3. Cameron (1980, pp. 62–64). See also Wilkinson (1985).
4. Shafer (1983, pp. 93–119). This article argues that the control of multinational corporations over the marketing of resources is an obstacle that resource-exporting countries cannot surmount on their own, even with such interventionist strategies as nationalization. I would regard this as an institutional manifestation of the market dependency I am underlining as a more general constraint.
5. See Clarkson (1982, pp. 134–36). See also *The Globe and Mail* (1984). The economic, as opposed to political rationale for these investments was highly suspect even at the time, given the surplus capacity in the world market, and it has become even more so since. See also Alberta (1984, pp. 46–47, 67–68).
6. Green (1980, Table 1-10). Moreover 6 out of the top 10 petroleum producers (ranked by sales) were more than 80 percent foreign owned in 1977 (Table 1-11).
7. Canada, Major Projects Task Force (1981). See also Doern and Toner (1985).
8. Richards and Pratt (1979, pp. 157–59). See also Clement (1977, pp. 280–95), who also stresses the tendency of Canadian financiers to ignore Canadian ventures in favour of U.S. subsidiaries.
9. Canada, Department of Energy, Mines and Resources (1980, p. 13). See also Doern and Toner (1985, chap. 10).
10. McDougall (1982, pp. 106–13). Cf. Doern and Toner (1985).
11. For a comprehensive review of the politics of the NEP, which also stresses the uniqueness of these events, see Doern and Toner (1985).
12. There has been one other instance: gold, after President Richard Nixon ended its convertibility at the official rate, in 1971. However, I would submit that the noticeable lack of a federal/provincial or interprovincial crisis over gold prices in Canada during the seventies tends to support, rather than defeat, the argument made here.
13. For a review of public opinion and the NEP, Petro-Canada and Canadianization, see Doern and Toner (1985, pp. 107–108).
14. On the express assurance to the American government that other sectors of the Canadian economy would not be "NEPed," see Clarkson (1982, p. 105). See also Canada, Department of Energy, Mines and Resources (1982, p. 67), where a "mineral sector equivalent" to Petro-Canada is also ruled out.
15. On this score, it is instructive to consider the recent Norwegian experience, especially since Norway can be compared to Canada as a small, Western, open economy that is heavily dependent on its resource base and is also on the periphery of a very large, industrial market, the EEC. See Hansen (1984). The "nationalism" of OPEC members, of course, was even more pronounced.
16. Evidence along these lines can be found in the excellent analysis of the origins of the NEP by Doern and Toner (1985, chap. 2). However, they would not necessarily go as far as I do in discounting the international dimension to the nationalism of the NEP. See also Wilkinson's impression that "an undeclared purpose of the program seems also to have been to move control and concentration of the oil and gas industry away from Western Canada (1985).
17. See, for example, Hayter (1976).
18. Anderson and Bonsor (1984; chap. 5, pp. 38–39). These figures apply to existing newsprint producers under pre-1982 legislation.
19. See Nelles' discussion of "The Manufacturing Condition" (1974, pp. 81–87, 341–47). See also Pearse (1980). For the potash comparison, see Laux and Molot (1981, pp. 189–221). Wilkinson (1985) also points to the costs of intergovernmental competition.

20. For an account of the wasted opportunities of the past in the forest industry and the role of sound management in preventing them, see Canadian Institute of Forestry (1983, especially chaps. 2 and 4). See also Alberta Energy and Natural Resources (1983, pp. 25–27).
21. Canada's three largest metals, by value of production, are copper, iron ore and nickel. The decision to examine copper (at $1.9 billion in production in 1981) and nickel (at $1.7 billion) as opposed to iron (slightly higher than nickel) was partly in response to the "nonferrous metals" classification encountered in some of the published statistical aggregates and partly a reflection of the author's greater familiarity with Ontario and Manitoba, as opposed to Quebec, where iron mining is most prevalent. See Statistics Canada (1981a, Table 1).
22. See Cairns, who submits that Canadian producers of nickel "still retain an important Ricardian advantage" and goes on to conclude that "there is room to extract some of the Ricardian rent through increased taxation" (1981a, pp. 528, 532).
23. There is a long-standing Ontario proscription on the export of unprocessed ores, and there are several provincial and federal tax incentives to encourage mineral processing. For Ontario, see Leith (1978).
24. It is interesting to note that, from his long-term historical perspective, Nelles (1974) is at pains to point out that locational (economic cost) factors had more to do with the development of more advanced stages of fabrication in some mineral and wood products in Ontario than did various versions of the minimum processing requirements. See also Patton (1980, p. 210); Whitney (1980, pp. 290–91).
25. Leith (1967, pp. 21–27); Bucovetsky (1973). Bucovetsky urges caution in interpreting "tentative" results based on data "now twelve years out of date" (p. 2). Nevertheless, while respecting his conclusion that the multiplier effects of the primary sector come off not badly in comparison with several manufacturing industries, this observer notes that his data can be taken as an indication of how little intersectoral integration there is in the Canadian economy in general. (See, for example, the effects on balance of trade, pp. 63–64.) Backward linkages to Canadian suppliers, moreover, appear to be in decline: "By 1978, Canadian made equipment, as a ratio of total equipment purchased, had shrunk to a mere 27 percent, from almost 50 percent in 1965" (Canada, Department of Energy, Mines and Resources, 1982, p. 114).
26. Green places foreign ownership of mining and smelting at 51 percent in 1973 (1980, Tables 1–10).
27. Daly (1980, pp. 143–45). See also Patton (1980, pp. 211–15).
28. See Manitoba (1973). See also Daly (1980, pp. 142–45).
29. For a review of Ontario's regulation of the forest industry prior to 1972, see Ontario Economic Council (1978, chap. 11, pp. 71–82). See also Pearse (1980, pp. 456–60); Economic Council of Canada (1979; 1981a).
30. Average rates were calculated by the author from data in Table 3-A5, line 1 (book profit).
31. The citizens of the producing provinces, of course, also suffered a loss from this foregone income. The total value of the rents involved to 1980 has been estimated at $111.8 billion, of which "Canada energy users" received $48.6 billion and "Provincial governments" received $62.1 billion. See Helliwell and McRae (1982, Table 1).
32. For an overview of government assistance provided these industries during the early phases of their development, see Nelles (1974); Zaslow (1971).
33. For analysis, see Doern and Toner (1985, chap. 11); Richards and Pratt (1979); Doern and Prince (1984); Cairns (1984); Bregha (1981).
34. This paraphrases the attitude represented in, for example, the brief from the Canadian Institute of Forestry (1983, p. 17 and *passim*). The argument is against the view that there must be a choice between resource development and high technology; the synthesis, of course, is advanced resource technology. See also Wilkinson (1985).
35. Ricardo is quoted to this effect by Waverman (1974). For more recent discussions of rents, see Scott (1977, p. 211); Leith (1978, pp. 355–56).
36. Manitoba (1973, p. 39). See also chap. 4, *passim*.

37. Dales made this observation, which is not rendered verbatim here, in the course of a panel shared with the author during a session of the Association of the Quantitative Study of Canadian Economic History, Wilfrid Laurier University, March 16, 1984.
38. Manitoba (1973, pp. 17–18). See also Leith (1967, pp. 38–40), who stresses the possible trade-off between further processing and total revenues.
39. See also Doern and Toner (1985, chap. 12).
40. For a good summary discussion, see Canada (1972, chap. 11). See also Wilkinson (1968, pp. 127–30).
41. Provincial Crown corporations, especially in the energy field, have already been noted as possible exceptions to this.
42. For an American discussion that sees corporations in the United States regaining some lost ground politically, see Vogel (1983).
43. For a discussion of the importance of the U.S. market to the development of Canadian energy delivery systems, see McDougall (1984).
44. For a discussion of producer-provincial government strategies in their struggle with Ottawa, see Doern and Toner (1985).
45. A classic statement of some of these interconnections was made by L.B.Pearson in Parliament: "If defence is to be considered on a continental basis, then resources and materials for continental defence must also be considered on a continental basis" (Canada, House of Commons, *Debates*, July 18, 1958, p. 2373).
46. See Katzenstein (1978); see also Rogowski (1983).
47. *Financial Post 500, 1983*, pp. 69–73. According to the same source, about 44 percent of Canada's largest non-financial corporations were owned outside the country in 1983 (p. 67).
48. It also seems unlikely to congeal out of what Donald Smiley has called the "sonorous mush of recent Canadian Liberalism," especially since liberalism itself (as he argues) is probably inimical to the survival of a good many sovereign states, including Canada. See Smiley (1975, p. 52). It is interesting to read this discussion in conjunction with a more recent endeavour to examine Canada's conduct of foreign policy for clues about the national political character, whose author sees in Liberal governments an "attempt to impose a rational form upon an untidy reality, and to do so often without a clear sense of substantive purpose" and a tendency toward "the concealment of issues and the abandonment of what the serious practice of politics under conditions of diversity really requires" (Stairs, 1982 p. 691).
49. There is no question, however, that the vested interests of the provincial governments themselves make their own contributions to these conflicts and complicate their resolution considerably. See Cairns (1977).
50. Smiley (1975, p. 49 and note 40). See also Neill (1972, pp. 66–72). On attitudes to foreign investment, see Stevenson (1974b).
51. For an overview of various provincial "barriers to trade" and protectionist measures, see Shoup (1977).
52. There is undoubtedly some role in this for the federal government, especially by way of providing a catalyst and subsequent good offices; the point of understating a federal role is that the producing provinces are unlikely to cooperate with any disguised form of an attempt by the central government to seize revenue from or control over their resources.

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Politics of Income Security
Historical Developments and Limits to Future Change

JAMES J. RICE

Introduction

Social policies answer essential questions . . . How should society educate its young, protect its citizens from criminals, or house its population? Who should be responsible for providing health care, a safe environment, or equal opportunities for cultural development? Who should provide basic security against the risks of industrial society? When should individuals have a right to protection from poverty created by old age, illness, disability, or child-rearing? What types of programs should be developed to help people manage during times of unemployment, underemployment, or delays in entering the labour force? Most students of social policy believed the issues underlying these questions had been resolved by the early 1970s with the development of the welfare state, only to find the economic recession in the early 1980s undermining the foundation of the existing system.

Declining revenues, spiralling inflation combined with high unemployment, and a growing lack of confidence in social intervention as a method of solving social problems encouraged governments to re-examine their commitment to existing social policies. Both Liberal and Conservative governments called for changes in the existing system. The Liberals, in Marc Lalonde's paper, *Statement on the Economic Outlook and the Financial Position of the Government of Canada*, sought to reduce their commitment to the income security system, as did the Conservatives in their 1984 discussion paper, *Agenda for Economic Renewal*. The threat of these changes has created confusion and alarm in the minds of Canadians. They wonder how much support they will receive in raising their children, whether they can count on the continued exis-

tence of medical and hospital services, what type of programs will be available for them when they retire, or if the entire array of programs will be dismantled.

The purpose of this paper is to examine the constraints that the politics of income security put on the government's ability to make dramatic policy changes. Three issues will be reviewed: the impact of dominant social democratic ideas on the development of social welfare; the evolution of federal-provincial relations regarding the responsibility for delivering and financing social security programs; and the general acceptance of the instruments used in delivering social security benefits.

These three aspects have been selected because of the importance they have had in the development of social policies. Dominant ideas help determine not only which social problems will become part of the political agenda, but also how these problems will be dealt with. They create expectations about how individuals, groups and organizations (particularly the government) should interact to achieve social well-being. A rough consensus of these expectations provides an outline of the implied social contract under which most Canadians believe they live. This social contract reflects the expectations of a wide section of society: business, labour, different levels of government and the public in general. By examining changes in this social contract, we can obtain a broad overview of the social forces shaping the politics of income security.

Governments must answer a number of questions when trying to decide how to translate dominant ideas into social policies. Which needs should the government meet? Which level of government has constitutional responsibility for providing the program? How should the program be administered — at the federal or provincial level? What effect will programs at one level of government have on the other level? How well will the policy be accepted by the general public? Answers to these questions influence who will provide particular programs and how they will be paid for.

Once decisions have been made about the types of programs that will be offered, governments must decide which instruments they will use in achieving their program goals. There are four major instruments available for designing social welfare programs: the method of allocating benefits, the form in which the provision will be made, the type of interaction expected between the beneficiary and the system, and the method of financing the program. Each instrument provides a number of options from which governments can choose when developing social policies, and the pattern of decisions produces welfare programs that are either residual or institutional in orientation.

In addition to focussing on these three issues, this paper is limited to an analysis of the federal government's policy initiatives. Although provincial governments make a contribution to income security through

social assistance, worker's compensation, and other income supplement programs, the largest income security programs, both in size and expenditures, are managed by the federal government. In taking this narrow focus we inevitably do injustice to provincial income security programs, other factors in the politics of income security, and, in particular, to the more complex issues underlying the introduction and ongoing development of each social welfare program. Given the terms of reference of this paper, within the context of the overall mandate and research program of the Royal Commission on the Economic Union and Development Prospects for Canada, this sacrifice is unavoidable.

The first part of the paper outlines the dominant ideas and social arrangements prior to the 1930s, as well as the emergence of a new social contract which occurred during the Depression and World War II. The second part of the paper examines the evolution of this contract through federal-provincial negotiations that took place between the early 1950s and the mid-1970s as Canada developed into a "welfare state." The third part examines the challenges from the political right and left that are reshaping the social contract as we move toward the 1990s. The paper concludes with an analysis of how these political forces will limit the ability of the government to alter dramatically the existing system.

The Emerging Politics of Income Security

The politics of income security are concerned primarily with the communal provision society makes for supplementing income.[1] These provisions include universal demogrants paid on the basis of demographic characteristics; social insurance paid on the basis of the recipient having made an economic contribution (either directly or through an employer); social assistance paid on the basis of a means test; and income supplementation paid on the basis of economic criteria rather than on individual assessment.

The first task then is to examine the effect of the politics of income security on the emergence of a new social contract which became the basis for the existing welfare system. The events of the Depression and World War II altered the public's perception of the role of the state in protecting citizens from economic insecurity. In matters of social welfare, society was transformed from primary dependence upon private initiatives to primary dependence upon the state.

Prior to 1930, three factors shaped the politics of income security: the ethos of capitalism, individualism and self-sufficiency; the belief that the provision of welfare was a voluntary matter which should be provided in a way that did not encourage social dependence; and the division of powers which initially gave to the provinces responsibility for social welfare and to the federal government the major source of taxes.[2] During this period, most Canadians believed individuals and families were

responsible for their own well-being. The dominant ideology of the day stressed the importance of private initiative and individual responsibility, based on a strong belief in the work ethic and self-improvement. It was assumed that successful families were hard-working and frugal, while people living in poverty were lazy or unwilling to make sacrifices. Sometimes the poor were thought of as "down on their luck." However, those who allowed poverty to make them indigent and dependent were thought of in the same way as criminals and the mentally ill: responsible for their fate and deserving of their "lot in life."

The ethos of capitalism and individualism fostered the notion that the first line of defence against poverty was the family, and where that failed, charity and voluntary activities were expected to solve the social problems of the day. Church groups, missions, child welfare societies, and neighbourhood settlement houses were expected to develop programs for those in need. Each was intent upon changing the life-style of the poor. The Associated Charities of Winnipeg reflected this dominant attitude:

> If material assistance was all that was needed, if the families seeking it could in all cases be relied upon to use it in such a way that they would quickly become self-supporting the work of this department would be easy. Unfortunately, the large majority of applications for relief are caused by thriftlessness, mismanagement, unemployment due to incompetence, immorality, desertion of the family and domestic quarrels. In such cases the mere giving of relief tends rather to induce pauperism than to reduce poverty.[3]

The word "relief" appropriately described the politics of income security in this era because it inferred the state's limited acceptance of a "public" responsibility for the care of those who were unable to care for themselves. No person fit for employment could receive relief; when assistance was given, it was based on a means test to determine need, and the amount given was less than the wages of the lowest paid worker. These three principles insured that only the "deserving" poor received benefits and that they would return to thrift, sobriety, work and independent living as soon as possible.

The ideology of self-reliance fostered the notion that governments should not be involved in the private affairs of citizens, and, if necessary, they should do so with as little interference as possible. Municipal emergency assistance, which provided relief in the form of assistance in kind (such as food, second-hand clothing, and fuel), and provincial mothers' allowance programs, which provided subsistence allowances for widowed mothers with small children, were based on means tests to insure that only those in need received benefits, provided for at subsistence levels.

Although relief was the dominant means of providing social benefits at the time, it was not the only one. Provincial compensation programs for injured workers were based on the principle of insurance, and were

rooted in the rights of workers under the common law. The principle of insurance fitted well with the ethos of capitalism. It was an accepted market mechanism, even though it altered the employment contract by creating new obligations between the worker and the employer. It brought the state further into the worker-employer relationship by making the government party to the contract.

During the first 60 years of Confederation, the politics of income security was influenced by urbanization, industrialization and a major concern for economic matters. Most government expenditures were directed toward building the necessary infrastructures for economic growth. Railways, roads, hydro-electric projects and water and sewage systems received substantial government support, as did public buildings and educational facilities. The provision of social welfare was primarily in the hands of the provincial governments. The Constitution Act, 1867 gave the provinces major responsibility for social welfare, including hospitals, asylums, charitable institutions, prisons, municipal institutions and local justice. The federal government was given primary responsibility for economic matters: the regulation of trade and commerce, banking, currency, weights and measures, interprovincial transportation and communications. In addition, the federal government was responsible for defence, immigration, criminal law and special groups such as Native Canadians. Social policy considerations were often secondary to economic considerations.

It was not until the introduction of the Old Age Pensions Act in 1927 that the politics of income security began to emerge as a central force on the national policy agenda.[4] Up to this time, "welfare" activities such as education, health care, children's services, institutional care for the insane, mothers' allowance and so on had been primarily provincial matters. With the introduction of the Old Age Pensions Act, the federal government formally entered the welfare arena for the first time.

Although it is not the purpose of this paper to examine the particular politics in each policy area, it is informative to examine the highlights of the introduction of this first major federal income security initiative because the same issues reappear many times over the next 57 years.[5] The examination also provides an opportunity to indicate the differences between the larger socio-political questions and the politics of social security. At the broadest level, the pensions issue developed as a result of social dislocations created by industrialization and urbanization, and the inability of many of the elderly to save for their retirement (many of these issues are examined in other papers written for the Royal Commission). At the more specific level, the introduction of the pensions program came about as a way of solving an immediate political problem — the election of 1926.

The pensions issue had been around for some time. The Trades and Labour Congress of Canada (TLC) had called for legislation in 1905 and

1907; had sent delegations to petition the prime minister and members of Parliament in 1910; and had put forward specific proposals to the government in 1922 and again in 1925. The select committee of the Commons examined the need for a pension in 1912 and felt it was premature. A special committee examined the issue again in 1926 and felt pensions were outside the jurisdiction of the federal government and too expensive as well. Prime Minister Mackenzie King, facing the prospect of resigning his government after the 1925 election, sought a way of retaining power by offering opposition members Woodsworth and Heaps a cabinet position. Both declined and instead wrote to King suggesting the introduction of legislation regarding the development of an old age pension.[6] King, knowing that labour, particularly the TLC, supported the idea of a pension and that there was no organized business lobby against it, put the bill through the House of Commons in March 1926 in exchange for political support. However, the Senate defeated the bill on the grounds that it "represented an unwarranted intrusion into the provincial field."[7] In the ensuing political fight, King asked for the dissolution of the House, and the Governor General refused. Meighen's Conservative government then took power and was defeated three days later, resulting in a call for an election. King took the pensions issue to the public (as part of the famous King-Byng constitutional affair) and won a majority government committed to the pensions issue.

The new government passed the act and instantly faced the second issue which was to become common in the politics of social security: opposition from the provincial governments. From the very beginning it was clear that federal social welfare initiatives would have to be "worked out" with the provincial governments. The provinces, particularly Quebec, opposed any legislation that directly allowed the federal government access to what was considered provincial responsibility. It was not until 1936 that all provinces had taken advantage of the federal legislation and developed pension programs. In order to deal with both provincial resistance and constitutional problems caused by the division of responsibilities in the Constitution Act of 1867, the federal government financed the pension in the form of a conditional grant. Each province was encouraged to develop and operate its own pension program with the aid of a conditional federal grant for 50 percent of incurred program costs. The legislation represented "an ingenious compromise between provincial responsibility and federal initiative."[8] The federal government established the conditions under which it would reimburse the provinces, and the provinces operated the programs.

This "ingenious compromise" contained two fundamental difficulties which have haunted federal-provincial relations up to the present time. First, the federal government has no way of supervising the administration of the programs, and second, the provinces vary in the way in which each interprets the act. The first problem has led to fears on the federal

government's part that money could be used in ways contrary to the conditions laid down in the legislation. The second problem has created fears on the provinces' part that the federal government, in trying to achieve conformity, would encroach upon provincial responsibilities.

The dual responsibilities for social welfare created by conditional grants meant that there was no easy way to alter existing programs; both had to agree on the problems *and* the solutions. Denis Guest claims that, as far as early pensions were concerned, this was an unintended benefit; difficulties in altering the agreement by either party "achieved a degree of stability from the beginning which enhanced the programme's worth, particularly during the depression of the 1930's when many government programmes had to be severely curtailed."[9] As suggested in the final part of this paper, this stability may well be an asset at the present time when social welfare programs are facing similar attacks.

In addition to concerns about winning elections and designing policies to meet with provincial approval, governments, if they are to remain in power, must incorporate into their policies the dominant ideas of the day when meeting the needs of particular interest groups. The design of the old age pension reflected the belief that the elderly should be responsible for their own retirement. If the elderly were unable to meet their needs, a public pension should provide minimum benefits — after ensuring that there existed insufficient personal income, property or other resources (including in some cases, the ability of children to maintain their parents). This policy also reflected the particular interests of labour and business. A balance was achieved by closely following the recommendations of the 1924 special committee (which included two labour representatives) while, at the same time, serving business interests by reinforcing the work ethic through low benefits levels and limited eligibility.

The politics of income security which influenced the development of the old age pension was to be dramatically altered by the Depression and World War II. The slumping economy of the 1930s led to a one-third decline in GNP from $9,061 million to $6,359 million in the four years following 1929. During the same period, unemployment rose from 2.9 percent of the labour force to 19.3 percent.[10] Industrial production was cut in half, exports fell by two-thirds, and construction was cut to one-tenth of its previous level.[11] With thousands out of work, increased family dislocation and social unrest, people were beginning to believe that poverty was not necessarily the result of individual characteristics but rather of social and economic forces in society.

The social chaos of the Depression forced individuals and families to look for new ways of protecting themselves from economic uncertainty. The search for security undermined the old ideologies of self-sufficiency and the ethos of individualism. Many ideas became popular in different segments of society: socialism, communism and fascism, to name a few. There was rapid growth in alternative political organizations: the Social

Credit party, the Co-operative Commonwealth Federation (CCF), the Union Nationale, farmers unions and cooperatives. Each organization sought ways to protect the individual from the economic uncertainties of "unbridled capitalism." The growing belief that the government had to provide some form of protection for those who could not protect themselves was reshaping the social contract under which people were prepared to live.

The most significant attempt to articulate this new social contract was found in the emergence of the CCF as a political party. At the first annual convention they declared:

> We aim to replace the present capitalistic system, with its inherent injustice and inhumanity, by a social order from which the domination and exploitation of one class by another will be eliminated, in which economic planning will supersede unregulated private enterprise and competition and in which genuine democratic self-government based upon economic equality will be possible.[12]

The general public, the press and politicians began to listen to claims that the government had to provide some protection against unemployment.[13] During the 1930s, there was a growing recognition that individual self-sufficiency was difficult, if not impossible, in a highly differentiated and specialized labour market and that keeping one's job had less to do with individual initiative than it did with the good fortunes of the economy.

Not all of the politics of income security were cast in classical "left-right" political terms. The effects of the Depression also altered the relationships between the federal and provincial governments. The enormous imbalance which developed between provincial governments' ability to provide emergency relief and their ability to raise resources provided the federal government with an opportunity to respond to changes in public support for social programs. Constitutional limitations meant they could not simply enter an area of provincial responsibility. They were found ultra vires when they did this with the introduction of the 1935 unemployment insurance program. Nor could they convince the provincial governments to amend the Constitution every time they wanted to introduce a new program, even though they were successful in 1940 with the same unemployment insurance program, in 1951 with the old age security program, and again in 1965 with respect to pension policy. The federal government had two basic strategies open to it: the "carrot and the stick" strategy of offering financial incentives for program compliance or punishment for non-compliance; and, when this strategy did not work, negotiating the fiscal and structural arrangements necessary for the introduction of social welfare programs.

At the same time the federal and provincial governments were negotiating relationships, international events were taking place which

shaped Canadians' thinking about social welfare issues. Great Britain introduced an array of programs designed to provide a basic universal social security system. Beginning with the Unemployment Assistance Board in 1934, and culminating with the introduction of the National Insurance Act and the National Assistance Act in 1948, the British government established the basis of the "welfare state." At the same time, the United States was introducing "new deal" legislation in the form of the Social Security Act, which provided the country's first major social welfare intervention. These new initiatives encouraged welfare advocates to push still further for new programs in Canada.[14]

Keynesian economics also helped provide a rationale for the emergence of a new social contract. Keynes demonstrated that by encouraging demand through public expenditures, the government could encourage full employment — an explicit goal of economic policy; it could sustain economic growth by fuelling the economy, and yet, if prices became inflationary, it could withdraw expenditures and thereby cut back on economic stimulation. It appeared that by combining economic and welfare goals, the government could provide income to people who were unable to work while increasing the general level of demand for consumer goods. "The entire operation was conceived of in terms of a positively functional relationship between the state on the one hand and the market economy and the social structure more generally on the other."[15] Keynesian economics postulated a direct link between social policy and economic development. Although each area had its own set of goals, achievements in one area were believed to have positive outcomes in the other.

The emergence of new ideas changed the language of the politics of income security. The debate was no longer described in terms of a struggle between capitalism and socialism, the exploitation of workers or the sanctity of unregulated private enterprise; but, rather, as the economic necessity of stabilization, regulation and stimulation. The Keynesian ideas provided economic justifications for regulating the economy. This allowed the debate to take a new form — such as describing social welfare programs as counter-cyclical instruments rather than as anti-capitalist intrusions in the economy. Aided by the realities of wartime mobilization, the process of reconstruction and a general post-war desire to avoid another Depression, the Keynesian concepts provided a practical blueprint for government involvement in the fundamental management of the economy.

The New Social Contract

The politics of income security were altered by economic forces in Canada, events on the international scene and a new way of thinking about government involvement in the economy. There was a growing

belief that governments could avoid major divisions in society by becoming more involved in the management of the economy and in the provision of income security. The gradual development and articulation of this new set of ideas took place through public debates, partisan politics and, in particular, discussions regarding four major documents published between 1937 and 1945.[16] These four documents represent a critical turning point in the development of the larger politics of social policy. They described a mechanism for transforming the ideas developed during the Depression into social programs. These programs were to become the foundation of the new social contract in Canada.

The 1937 report of the Royal Commission on Dominion-Provincial Relations was the first of the documents presenting a new way of looking at the responsibilities of the state. Its major goal was to re-examine the economic and financial basis of Confederation and the distribution of legislative powers in light of economic and social developments from Confederation to 1937. The supplementary reports to this commission (known as the "Red Books") reviewed all existing social welfare programs, including social services, old age pensions, widows' pensions, mothers' allowances, health care, social insurance and education. The report said that the provinces were unable to finance their social welfare responsibilities without assistance from the federal government; that the federal government should take responsibility for income security against old age and unemployment; and should help finance a provincially administered social service system which met minimum national standards. [17] The commission's recommendations that the federal government take over responsibility for personal and corporate income taxes and assume responsibility for the unemployed, the elderly and provincial debts arising out of the Depression were rejected by the provinces — even though the commission recommended that a system of unconditional adjustment grants be provided to the poorer provinces so that they might provide adequate services without undue taxation.[18] However, the royal commission advanced social security matters in one fundamental way: it demonstrated the need for a basic national standard for social welfare programs.

The Report on Social Security in Canada, a pivotal document in Canadian welfare, was published three years later, in 1940. In it, Leonard Marsh set out the principles for a comprehensive social security system. This made it similar to the Beveridge plan which aroused great attention on both sides of the Atlantic by calling for a universal social insurance system, children's allowances and a national health system.[19] The foundation of the Marsh Report was the acceptance of the principle of social insurance for income maintenance and the rejection of the system of social relief as the major mechanism for protecting the majority of the population from income disruption. Marsh believed that the idea of social security had to become a national goal of the federal government.

The report argued for a system of insurance in which a pool of funds would be created through taxation or mandatory contributions. These funds could be used for meeting the needs of those who became unemployed or suffered some other social casualty.[20]

Marsh claimed that social insurance could be used to protect income from universal and employment-related risks. Universal risks included poverty due to size of family, sickness, old age, disability and death; unemployment risks included loss of income due to an inability to find a job, or to being laid off from an existing job. Social insurance provides benefits either on the basis of having made insurance payments or on the basis of a universally recognized need paid for out of general revenue. Marsh believed that the principle of social insurance had many advantages over relief: it held the recipient partly responsible for meeting the costs of the program; encouraged a feeling of self-dependence; identified who was eligible to receive benefits; insured a broad financial base; and developed a mechanism which did not introduce the "flavour of charity." Marsh claimed that:

> The genius of social insurance is that it enlists the direct support of the classes most likely to benefit, and enlists equally the participation and controlling influence of the state, at the same time as it avoids the evil of pauperization, and the undemocratic influence of excessive state philanthropy.[21]

The Marsh Report made a number of recommendations: the establishment of a comprehensive social insurance system which was to cover risks for loss of income from unemployment, sickness, disability, pregnancy, old age and death; a system of children's allowances; a comprehensive system of health insurance; a national investment program; and a training and guidance program.[22]

On the day the Marsh Report was released, the Heagerty Report on health insurance became public. This report set out the plans for a joint federal-provincial health and medical insurance scheme that would be administered by the provinces with financial assistance from the federal government. The report "envisaged the whole population being covered for a full range of benefits in kind, including medical, dental, pharmaceutical, hospital and nursing services."[23] The recommendations were also based on a social insurance principle with annual premiums sufficiently low so that the program would be universal. The proposals, after considerable alterations, were included in the recommendations made to the Dominion-Provincial Conference on Reconstruction in 1945.

This report was followed one year later by the Curtis Report, which recommended massive federal intervention in the housing market and town planning. It focussed on the needs of low-income families and their problems in renting affordable housing units. The recommendations resulted in the introduction by the federal government of the National Housing Act (1944).

Running through the publications were four major themes reflecting the changing politics of social security: the economy was not self-regulating, and if left unattended would collapse, leading to social upheaval; individual self-reliance had been dramatically altered by urbanization and industrialization, and in dire economic circumstances the household could no longer count on family members, charity, or the market to meet all its needs; the government would have to become a dominant actor in providing protection against income disruption; and social policy instruments had developed to the point where they could be used to provide universal social security.

The reports claimed that the state should accept three fundamental responsibilities: the stabilization of the economy so that the overall risk to wage income would be diminished; the creation of full employment so that everyone could provide for his or her own needs; and the development of a basic welfare system which would provide economic support during times of income disruption.

Although the recommendations of these documents met with considerable resistance from the private sector and the provinces (in fact many were rejected at the 1945 Conference on Reconstruction), a new set of ideas entered the public domain to become the foundation for a growing consensus on the governments' involvement in the provision of income security.

The wartime cabinet of Prime Minister Mackenzie King was aware of the growing popularity of these ideas, as reflected in the support for the CCF, which became the official opposition in Ontario in 1944. They knew that in the long run steps had to be taken to capture the political support generated by these new ideas. The politicians were not alone; there existed also a number of influential people within the civil service, intellectual allies of the authors of the four reports, who were prepared to "translate" them into a language that was ideologically acceptable to the governing party.[24] The stage was set for translating the new social contract into social policies.

From Politics to Programs

From the 1940s into the 1970s, a number of social welfare programs were developed based on the new politics of income security. Unemployment insurance (1940), family allowance (1945), old age security (1951), public pensions (1965), a federally supported social assistance system (1966), spouse's allowance (1975), and a child tax credit program (1978), delivered benefits to almost every Canadian. Over time, people came to rely on their existence, accepted them as important social rights to benefits and services, and counted on them as a cushion against unforeseeable misfortune.

In translating the new social contract into programs, governments had to make four important program design choices: the basis for allocating

benefits; the form in which they would be provided; the government level at which they would be delivered; and the method of financing them.[25] These changes transformed welfare from a system of *relief* to one of *social insurance and universal entitlement.*

The most important change was a shift from allocating benefits on the basis of a means test to the basis of commonly assumed needs. Old age security and family allowance are examples of universal programs which provided benefits to the eligible population as a social right. These programs assume that individual needs result from social conditions rather than personal deficiencies, and therefore benefits are to be provided as a method of compensating for structural deficiencies in society. Two examples highlight what is meant by structural deficiencies. First, since incomes from wages do not relate to family size, larger families have more difficulty meeting their own needs. Second, wages of low-income families are not sufficient to allow them to save for their retirement. Social policies were used to adjust incomes to meet the needs created by these structural conditions.

A number of programs were designed so that the allocation of benefits was limited to those who paid an insurance premium. Both unemployment insurance and (in some provinces) medicare are examples of this type of program. The insurance mechanism decreases the scope of allocating benefits. Those who do not make payments are not eligible to receive benefits even though they may have identifiable needs.

Finally, relief mechanisms were maintained for social assistance programs such as mothers' allowance or municipal welfare programs. Those who support this more residual allocation process stress the cost effectiveness of means-tested programs which only provide resources to those who "really" need them.

The majority of federal programs developed after 1940 provided benefits in the form of cash rather than in the form of goods or services. Family allowance, old age security, unemployment insurance and the major portion of social assistance provided benefits in cash. The child tax credit program used a negative income tax system for calculating benefits, while medicare provided services, and subsidized housing provided benefits in kind rather than in cash. Cash benefits provide the greatest freedom of choice to the recipients and are the least stigmatizing, while benefits in kind, such as food, clothing or housing, exert a measure of control over the recipients and force them to consume the goods and services dictated by the politics of social policy.[26]

The centralization of most income security programs altered dramatically the way the benefits were delivered. When left to local voluntary organizations or social service agencies, the delivery of welfare is usually carried out on a person-to-person basis. The providers of services are able to monitor the behaviour of recipients and to control the social environment in which the recipient lives. Changes in the politics of

income security altered the way in which programs were delivered. Almost all of the major programs designed after 1940 were delivered by the federal government and required little personal contact. It was less expensive to deliver services in this way, and the vast majority of middle-income earners found this more acceptable than having to deal with the "welfare system" personally. It was obvious to most recipients that the greater the contact, the greater the potential control exercised by the system. Those who continued to argue in favour of close contact did so on the grounds that people who needed benefits also needed supervision in using the resources.

During this period, both levels of government were involved in collaborative decision making and financial responsibilities for social welfare. This was called the era of "partnership" and "cooperative federalism" [27] and can be explained in part by the public acceptance of the role of social policies in the development of a stable economy. Although there was not always agreement on the specific arrangements, and in many instances the provinces protested that the federal government was encroaching on their constitutional territory; the social policy process developed a system with a greater area of shared responsibility than any other policy field.[28]

While one can state in quick succession the key financial programs put in place during this period of social policy ascendancy — tax rental agreements, tax sharing, equalization payments, shared-cost programs and block funding — we must reintroduce the caveat stressed at the beginning of this paper: the particular political histories of each program are different. Different needs, interest groups, political factors and social events influenced the development of each federal-provincial financial arrangement.[29] Similarly, the politics of income security were influenced by the larger political picture.[30] As an example, the populist Diefenbaker government helped to entrench equalization payments in an effort to overcome the centralist biases of the previous Liberal party; the same Liberal government adopted left-of-centre policies during the Pearson minority government in which the NDP was able to exercise some influence; and the architects of welfare programs were able to argue that the new programs were not only just, but affordable, during the economic expansion of the sixties.

The transformation of politics into programs came about through federal-provincial negotiations that endeavoured to meet demands created and/or intensified by the social upheaval of the Depression and World War II. These programs responded to the new social contract's being articulated in government documents and discussed in the media. In establishing a wide array of programs based on universal social insurance principles, a new set of expectations was created concerning the role of social policies. Canadians came to expect financial

help in raising a family; assistance when they became unemployed; health services when they were sick; and income support in their old age.

These expectations appear to be deeply rooted in the Canadian psyche and provide support for the social welfare system. Richard Coughlin in summing up his research on the mass support for the new politics of income security claims that:

> Across the sample of eight rich nations, public attitudes toward the broad principles of social policy have developed along similar lines both of acceptance and rejection. The ideas of collective responsibility for assuring minimum standards of employment, health care, income, and other conditions of social and economic well-being has everywhere gained a foothold in popular values and beliefs. And yet the survey evidence suggests a simultaneous tendency supporting individual achievement, mobility, and responsibility for one's own lot, and rejecting the elimination of aspects of economic life associated with capitalism.[31]

The welfare consensus was, therefore, not a radical initiative aimed at altering the nature of the existing social arrangements, but rather an incremental and fundamentally adaptive set of ideas that contained many conflicting notions. In drawing together the evidence of public support for Canadian welfare programs, Coughlin ranks the support for old age security, health care and family allowance as high; unemployment insurance as medium to low; and social assistance as low. On the one hand, Canadians support universal programs meeting the security needs of the middle class and providing programs which deliver benefits to them, while on the other hand they believe that selective programs, which provide benefits to low-income families, must be controlled through means testing and tight scrutiny over program recipients. Programs with the greatest element of universality in their design received high levels of support, while those with a more selective mechanism like social assistance, which retained the basic principles of relief, received considerably less.

The introduction of social welfare programs by the federal and provincial governments was assumed to have provided a basic security net below which few were expected to fall. During the early and mid-sixties, people began to believe that Canada had solved its problems of unemployment and poverty. It appeared that the government promise of economic security had been realized. Canada had one of the strongest economies in the world:

> Productivity was growing at over 4 percent per year and real income per capita doubled every two decades. The major adjuncts of economic development reflected this success. Regional disparities were being gradually moderated; absolute and relative poverty were declining; new firms and industries emerged to replace older, obsolete activities; technological

improvements made Canadian manufacturing competitive in expanding world markets; high levels of savings were channelled into productive investments in all sectors, encouraged by strong expectations about future prospects; and Canadians moved freely to better jobs in new industries and in new locations.[32]

The growth of the economy helped avoid any major divisive problems created by income redistribution resulting from social security initiatives. It also provided the basis for the expansion from a residual welfare system, where social welfare institutions only came into play when the normal structures of supply (the family and the market) broke down, to institutional welfare systems, which viewed welfare services as a normal structure of the state, providing benefits as a right to citizens.[33] T.H. Marshall claims this evolution of social rights was inevitable. From his perspective, the evolution began with the emergence of: civil rights in the eighteenth century with the notion of individual liberty; political rights in the nineteenth century with the enfranchisement of the adult population; and social rights in the twentieth century with the "right to share to the full in the social heritage and life of a civilized being according to the standards prevailing in the society."[34]

In summarizing the development of the welfare state, Keith Banting claims Canada had established a new set of social rights, income security being the most important.

> It is deeply embedded in the fabric of Canadian life, with important implications not only for the poorest and most vulnerable Canadians, but also for the broad economic and political structure of the country.[35]

The growth of government intervention in the economy, based on the principles of stabilization, regulation and counter-cyclical economic measures, provided benefits for everyone. The business sector enjoyed a long period of economic growth; the general public received its share of the new prosperity through higher wages and increased social benefits; and the federal government captured the dominant role in the battle for governing supremacy.

From Programs to Politics: The Welfare Crisis?

If the politics of income security gradually yielded social programs, the programs yielded still more politics, as various interests interpreted and evaluated the programs' effects on themselves and on the economy as a whole. Beginning in the late sixties, this evaluation became progressively more negative, and social welfare programs were blamed for many social and economic problems. In a review of social welfare policies, Irving Goffman claims that:

> It has not been uncommon to hear condemnation of the trends in Canadian welfare activities on the grounds that they are to blame for the growing

> national debt, the balance-of-payments problem, the sluggish performance of the economy, inflation, the demise of the empire and the threatened dissolution of federation.[36]

Major questions were being asked about the effectiveness of the existing welfare system. Did the system work — was income distributed in a direction which was socially desirable? Could Canadians afford this level of income security? Were people abusing the welfare system? Should people who earned high incomes receive benefits from a universal system? Was the welfare system inhibiting economic growth?

Critics of the welfare state from both sides — those who saw it as being an insufficient response to the needs of low-income Canadians, and those who saw it as a hindrance to economic growth — began to challenge existing policies. It was claimed that social policies were not effective in solving social problems. The Economic Council of Canada's *Fifth Annual Review*, written in 1968, documented the fact that, in spite of the development of mammoth welfare programs, there was still significant poverty among the working poor. The report claimed that at least two-thirds of the heads of poor families were in the labour force.[37] The myth that the buoyant sixties had solved the problems of poverty was shattered by the findings of the Economic Council and the hearings and final report of a special Senate committee on poverty. These findings, along with those of *The Real Poverty Report*[38], focussed the attention of both levels of government and the public on the failure of the system to meet the needs of the "working poor."

The inability of the government to dramatically solve social problems encouraged it to pay more attention to its political fights than to the needs of the poor. In the late 1960s, the interministerial and intergovernmental conferences focussed primarily on problems within the social welfare system. During the seventies, there was an overall shift in the orientation of the meetings, with less attention paid to working out problems and concerns and more to political posturing. Each level of government became much more aggressive with the development of "experts" intent upon negotiating the best "deal" they could for their government. In a sense, just as governments and political parties competed for political/electoral credit for the major social programs launched in the 1960s, in the seventies, they sought to deflect blame onto others for painful economic adjustments. Gordon Robertson stresses that this was due in part to the

> . . . evolution of provincial Premiers and Ministers as regional spokesmen on national issues, or, more accurately, perhaps, their increased use of federal-provincial conferences as a forum for the expression of regional interests in matters substantially within the federal authority that affect the residents of each province or region but not necessarily the decisions of provincial governments.[39]

Richard Simeon suggests that the development of contending bureaucratic bases of expertise led to a sophisticated level of federal-provincial diplomacy in which "winning" became as important as the policy under consideration.[40]

At the same time as the system was failing to meet the needs of the poorest Canadians, the middle class felt that the development of the income security system had removed most of the fears generated during the Depression. People who remembered the horrors of the "dirty thirties" and the problems of mass unemployment believed they would be protected if this ever happened again. Stories about city slums and poor living conditions no longer had the same impact they had at the end of the war. Bread lines and soup kitchens seemed like events out of the past (even though bread lines and soup kitchens were to reappear in many communities in the 1980s). To the middle class, people receiving welfare payments appeared to be living in the same type of housing, eating the same food, with access to the same services as the majority of workers.

Inflation and unemployment, combined with introduction of a number of programs in the late sixties (Canada Pension Plan, expanded health care programs, Canada Assistance Program, and changes in the Old Age Security Act), and program changes in the early seventies (expansion of unemployment insurance and family allowance, and the introduction of local initiatives programs and Opportunity for Youth), put pressure on the social welfare system. The result was an increase in the number and size of income transfers to persons who were eligible for benefits under government programs. In the early sixties, between eight and nine percent of personal income came from transfers; by 1973, this accounted for 11.4 percent of income.[41] By the early seventies, many Canadians felt society suffered more from over-expenditure than from social ills.

In an effort to stem the rising tide of criticism about the existing system, the federal government produced a number of reports which endeavoured to recommend new policies. Two of them stand out as clear examples of our inability to resolve social policy issues. Although both sought to make major adjustments in the delivery of social welfare programs, they recommended the use of vastly different policy strategies.

The first report, *Income Security for Canada*, set out two broad objectives: income protection to reduce or alleviate temporary financial hardship and poverty for the working population; and income support designed to reduce poverty among those who could not enter the labour force.[42] The policy proposals were intended to reassess priorities and reduce costs by concentrating resources upon those in greatest need. The intent was to eliminate or freeze the universal programs of family allowance and old age security and increase the benefits for low income families. A family income security plan was recommended which would have provided graduated benefits to families with incomes up to $10,000

per annum. This recommendation died on the order paper, and a restructuring of old age benefits under the Guaranteed Income Supplement, which would provide additional benefits to low-income seniors, was passed in 1970.

The report was rejected for the most part because it attacked the two universal social security programs — family allowance and old age security — and because there was a centralizing tendency in the proposal that expanded the federal government's role in the provision of social welfare. Although Canadians were questioning the welfare system, they did not support the dismantling of programs which benefited them. Old age security and family allowance were still the most popular of all social welfare programs. At the same time, the provincial governments were not prepared to consider programs which introduced centralization, even if the new initiatives were viewed as more effective or efficient.

The second report, *Working Paper on Social Security in Canada* (1973), differed from the first in both style and content. It was developed on the premise of federal-provincial cooperation. Three "working parties" were developed, "consisting of senior policy analysts from the federal and provincial governments and reporting to federal and provincial deputy ministers."[43] The purpose of the working parties was to design the implementation arrangements for a new social security program. Its authors claimed that:

> We have sought, in developing our proposals, to comprehend the whole sweep of social security policy and to develop a comprehensive, logical, and hopefully imaginative approach to this field. We have sought, too, to exercise our ingenuity in finding new, and if necessary radical, federal-provincial or constitutional arrangements, in order to achieve the kind of integrated social security system which will best serve the needs of the Canadian people.[44]

No social welfare program, either federal or provincial, was to escape the review of this committee. Each was to be examined to determine how it fitted into the overall welfare system, and recommendations were to be made so that the entire system would be both rational and responsive to the needs of Canadians.

The core of the report was an examination of five strategies for providing social security: community employment; social insurance; income maintenance; social and employment services; and income support and supplementation. In contrast to the report on *Income Security for Canada*, this report recommended increased use of universal programs and increases in the benefit level of these programs (although an element of selectivity was introduced when benefits from family allowance became taxable). Like the first, this report recommended the development of an income support program based on the principles of a guaranteed income, and an income supplement program for those who earned low incomes.

After five and a half years of meetings, reports, changes of provincial governments and a declining economy, the social security review came to a halt. "What started out as an example of cooperative federalism ended with extremely strained relationships."[45] The end results were a number of program changes: the Canada and Quebec Pension Plans were significantly changed, regulations regarding old age security and the Guaranteed Income Supplement were revised, and the family allowance was altered in a fundamental way; but the review failed to create "a rational and responsive welfare system."[46] In summarizing the failure of the social security review to meet its broader objectives, Richard J. Van Loon claims that

> . . . the cornerstone of the reform exercise — an income supplementation program for the working poor remains in limbo, a new Social Services Act concerned with the personal social services has vanished from the Parliamentary Order Paper and a Community Employment Program has virtually disappeared. No major new program and no significant rationalization of old ones can be said to have derived from what was a major effort at welfare reform.[47]

In part, the review failed because of the complexity of the system. Federal and provincial income security programs had overlapping responsibilities, and changes in one program area had implications for programs at the other level. As an example, an extension of the eligibility period for unemployment insurance would increase demands on provincial social assistance programs. These complications generate friction between the two levels of government, and each policy change requires complex analysis regarding its long-term implications.

In addition, as new ideas emerge, they have to go through a process that requires agreement by both levels of government before they become policies. In this situation, pressures from vested interest groups can have a profound impact on policy deliberations, given the many access points and the fact that only one level of government need say "no."[48] Keith Banting claims that the larger the number of governments involved in the process, the more difficult it is to reach agreement on any one issue. The inability to obtain agreement slows down the possible development of new programs, and more radical or innovative ideas are generally difficult to introduce.[49] There is also no clear way of knowing whether an entirely new system would be either more effective or less expensive than the old.

Part of the problem in redesigning the system was that the federal government used the income security system to achieve more than income supplementation goals. The income security system was also used to influence directly the purchasing power of Canadians, to maintain federal government visibility with the Canadian public, to justify the existing tax structure (and the power this gave them), to readdress problems of regional disparities, to encourage interprovincial mobility of

labour, and to influence the overall structure of the Canadian economy.[50] Banting also argues that the income security system provides political leaders with a mechanism for "sustaining or enhancing the legitimacy of the institutions of government itself."[51] He claims that:

> Modern Canadian politicians view income security, not so much as a means of preserving democracy, but as an instrument of cultural and political integration, as an underpinning of the stability of the federal system, or at least of the role of the central government in it.[52]

Both levels of government were aware that the number of groups dissatisfied with the present situation was growing exponentially. It appeared that for every group whose needs were met, two new groups emerged with unmet needs. Programs for the elderly, poor and unemployed were being re-examined, while new groups with high-profile needs were making their own demands. Single parents, battered women, abused children and young people with no work experience were seeking assistance from the state. Many of these issues became focussed in the demands of women's groups for social and economic equality. Family allowance and pension programs took on new political dimensions as they were articulated as social rights for single or elderly women. The social security review could find no rational mechanism for determining whose needs should be met through public expenditures and whose should not. Governments found themselves in a "no win" situation. They could not meet the ever-expanding expectations and demands of the vast array of old interest groups, nor could they find a politically acceptable way to say no to the new ones.

The social security review also failed because the federal government changed its priorities during the review from a focus on social problems to a concern about its relationship with the business community. The business community's confidence in the government began to decline with the introduction of the tax reforms highlighted in the white paper of 1969, and, even though the reforms were altered dramatically by the time of their adoption in 1971, a severe strain had developed between the government and the business sector. The strained relations were heightened by the economic crisis created by the oil embargo in 1973. The fourfold price increase of oil, combined with the rapid rise in the price of agricultural products, fuelled an inflationary spiral at a time of increased unemployment due to the expansion of the "baby boom" labour force, particularly with the influx of female workers. In order to reassure the business sector, the government introduced major tax incentives in 1972 and again in almost every year up to the early eighties. This undermined the ability of the government to meet the financial obligations of the social security system without borrowing resources.

The already strained politics of income security was heightened by the media attention that was focussed on activities in Britain and the United

States where there were sustained attacks upon the structures of social welfare. Anti-welfare critics were quick to blame the problems of economic stagnation and high unemployment on the development of social welfare programs. Milton Friedman, from the right, claimed that government spending was the main cause of the troubles of the western industrialized countries. James O'Connor, from the left, claimed that the fiscal crisis of the state was the "inevitable consequence of the structural gap between state expenditures and revenue."[53] Social welfare expenditures were accused of competing with economic growth rather than supporting it by siphoning off resources needed for investment, sapping the economic strength of the country, and weakening the will to work.[54] This view claimed that the solution to economic ills was a reduction in government expenditures (particularly social welfare expenditures), a reduction in taxes, and an increase in financial incentives for those willing to invest.

The anti-welfare critics used the combination of high unemployment and high inflation as evidence that the accepted "truths" of Keynesian economics were wrong. The monetarists and neo-conservatives, as well as mainstream economists, found the evidence of the Phillips curve convincing: it appeared there was no long-run trade-off between inflation and unemployment. TheKeynesian theory underpinning the social welfare system was being unravelled. The vast expansion of the public sector in general and the income security system in particular were accepted as evidence that the government was unable to control its own expenditure habits. If it could not meet its expenditure needs through taxes, the government appeared ready to rely on borrowed funds, thereby increasing inflationary pressures. Ramesh Mishra claims that "in the face of persistent stagflation Keynesianism has virtually collapsed as a theory and as a guide to action, and the resulting vacuum has promptly been filled by theories of the Right (and, in a different sense, of the Left)."[55] The right asserted that governments failed in providing a "secure society" for the poor and disadvantaged, while undermining economic growth by limiting the profits of private firms through taxation. "Corporations and governments alike, with few provincial exceptions, have spoken of the need to give prominence to profits and growth and of the necessity, therefore, to cut back social program expenditures."[56]

The decline of confidence in Keynesian economics also led policy analysts on the left to re-examine the effectiveness of the entire array of programs. They claim universal programs have wide public support but do little to redistribute income downward or to solve income problems of the poor; unemployment insurance programs provide necessary benefits to those who are unemployed but appear to keep people from looking for work; and social assistance programs are needed by those who cannot work, but the programs are stigmatizing and lock people into a "welfare syndrome." The proposals for dealing with the working poor — nega-

tive income tax and/or a guaranteed annual income — appeared either too expensive or unworkable, given underlying views concerning the work ethic and the many technical problems inherent in their designs.[57]

A number of national organizations called for the introduction of more selective programs and the reduction of universal programs.[58] In 1978 the federal government reduced unemployment insurance and cut back on family allowances and tax exemptions for children in order to introduce a refundable child tax credit for low-income families. One action supported redistribution and the other economic efficiency. The Canadian Council on Social Development called for increased emphasis on employment policies before the introduction of income maintenance programs.

The late seventies also saw increased tension between the federal and provincial governments. The election of the Parti Québecois in 1976 represented a major challenge to unity and brought into focus the historical struggle between Quebec and the federal government. Energy and oil ownership debates in Alberta, Saskatchewan and Newfoundland heightened political tensions. The contentious debates about social welfare programs such as medicare and postsecondary education undermined the process of federal-provincial relations. These activities have led Audrey Doerr to conclude that, "there is no longer a consensus among political leaders on the nature of our federal system and the way governments relate to one another."[59]

Richard Simeon claims that the classical model of federalism — which allocates responsibility for national issues to the central government, and regional or local issues to the unit government — has broken down for two reasons.

> First because of the complexity and interconnectedness of all policy issues, and the extent to which the instruments of public policy are shared between governments. And, second, because of the increased assertiveness of provincial governments, both in their desire for increased freedom to promote their own regional development, and in their claim to speak for their "regional" interests at the national level.[60]

Between 1980 and 1984, the federal government adopted a new strategy — a sort of "take it or leave it" approach. In 1980, three issues which would normally have gone through federal-provincial negotiations because they were concerned with shared responsibilities were taken first to Parliament for consideration and action: constitutional reform was introduced in Parliament after the constitutional meetings ended in disagreement; the National Energy Program went the same way; and the problems of federal-provincial financial arrangements were sent to a parliamentary task force.[61] This unilateral federal action allowed public input before the policy proposals reached the provinces and were politicized by them. The federal government appeared to gain a

political leverage initially, but in the final analysis it was clear that both parties had to agree on policy proposals that are effected by shared responsibility — and agreement requires negotiation. It is difficult, if not impossible, to develop policies when each political fight leaves unhealed wounds afflicting both levels of government as they enter the next round of negotiations. The result is a "lingering bitterness and distrust" which is debilitating to future cooperative ventures.

Both levels of government now enter negotiations as if they are zero-sum games. Each wants to reduce its commitment to social welfare expenditures. Between 1960 and 1975, social expenditures by all levels of government on education, health, pensions, unemployment insurance, family allowances and other income maintenance programs rose at an average rate of 9.5 percent per annum. This placed Canada second compared to other Organisation for Economic Co-operation and Development (OECD) countries. Between 1975 and 1981 the story changed. Growth rates fell to 2.9 percent per annum and Canada was second from the bottom of the OECD list.[62]

In the face of growing concerns about the fate of the welfare state, the federal government sought a way out of its political dilemma. It found its answer in a political commitment to expenditure restraint based on the need to curb inflation and bring down the deficit. Fiscal restraint and a reduction in the deficit was viewed as a desirable and necessary goal for economic improvement. By the 1980s, there were claims that western economies had come to the end of the "welfare state." Those who had moved to the right were calling for a return to individual and family initiative and voluntary services designed to provide benefits to needy low-income families. The broad thrust of this critique entered the politics of social policy within both major parties and among business interests, but it has not, to date, triumphed politically.

Income Security and the Future

This paper has described the transformation of a set of social democratic ideas into income security programs. In the process, federal and provincial governments negotiated a complex set of financial relationships. Canada moved from a decentralized, residual social welfare system based on the principles of relief to a federal-provincial collaborative system, based on the principles of social insurance and universal entitlement.[63]

Changes in economic circumstances and attacks from both the left and right upon the effectiveness of the existing system have left the politics of income security in turmoil.[64] There are persistent demands for increased benefits from those who receive income security, while at the same time there are demands that the tax burden be reduced. The middle classes are rethinking their commitment to social welfare. In the past, they were prepared to finance growing welfare expenditures as long

as real incomes were rising, but an uncertain economic future means they are no longer in an expansionary mood. With the growth of wage restraints, unemployment and rising costs of social welfare, they are wary of further developments in the welfare system. Keith Banting claims that slow economic growth means welfare expenditures will become a zero-sum process. "Major expansion of social security now requires an explicit reduction in the living standards of others — including middle-income Canadians who are experiencing real economic insecurity themselves."[65] Lester Thurow claims that this type of thinking has led to a zero-sum society in the United States, with the middle class and the well-to-do fighting to keep policies that benefit themselves and getting rid of policies that hurt them financially.[66]

The federal-provincial consultative machinery for managing the welfare system has reached a stalemate. Governments have developed large ministries and staffs to deal with each other and to carry on the process of policy debate. Experts advise both levels of government about the intricacies of different policy proposals. The changing politics of income security has led both levels of government to use federal-provincial conferences as political arenas in which they can "market" their own points of view. This process has increased tensions between the two levels of government and has resulted in less collaborative activity. In their present form, federal-provincial conferences are unable to manage the contentious politics of income security.

There no longer appears to be agreement between the federal and provincial governments as to how the social welfare system should operate. Both levels of government are bickering about who should provide, and pay for, social welfare programs. The provinces want full control over the traditional areas of responsibility guaranteed to them in the Constitution, with access to the resources necessary to fulfill these obligations. At the same time, the federal government believes that it has an important role to play in guaranteeing that all Canadians have access to the same type of benefits and services and that the tax burden needed to pay for the system be spread fairly across the country. They believe this can only be accomplished with federal involvement in the social policy process. Policy initiatives appear to be stagnating because one level of government or the other perceives proposed changes as resulting in a loss of influence for itself.[67]

Those who want to change basic welfare programs will have to overcome the inherent stability of a system where responsibility for social welfare is divided. Denis Guest's earlier analysis regarding the resiliency of the 1927 old age pension program still appears to be true in the 1980s — programs are difficult to alter when both levels of government must agree to the alterations. The present arrangements, no matter how unhappy people may be with them, confer advantages on one level of government or the other. This balance of advantages, and correspond-

ing disadvantages, has been negotiated over a long period of time, and governments will not easily give up policy territory that they now possess.

The private sector has been encouraging both levels of government to "hold the line" on tax increases and to redesign social welfare programs to encourage people to remain at or return to work, rather than live on the benefits of a "generous" welfare system. They have also been encouraging the government to privatize parts of the welfare system and to expand reliance on the voluntary sector.

Those involved in voluntary organizations are concerned about a possible shift decreasing the country's reliance on government programs and increasing the demands on voluntary organizations. The voluntary sector's concern is that it will be asked to do more without a corresponding increase in resources.

Given these problems, where do we go from here? Can the old social contract be reconfirmed, or do we need to develop a new one that continues to meet the needs of the vast majority of Canadians? Can the two levels of government find a working solution to federal-provincial relations where they concern the development of social welfare policy? We are left with the essential questions with which we began: what communal provision will society make for solving social problems? How should we organize relationships between the household, the market and the state? Who should provide basic security against the risks of industrial society? When should individuals have a right to protection from poverty created by old age, illness, disability or child rearing? What types of programs should be developed to help people manage during times of unemployment, underemployment or delays in entering the labour force? How much of the nation's resources should we spend increasing social welfare? Who should pay for social programs designed to increase the well-being of particular groups in society?

The evidence provided in this paper indicates that it will be difficult for governments to alter dramatically the income security system in Canada. The basis of the existing system is too broad, the governmental relationships too complex, and the basic programs too deeply entrenched to allow major alterations to the system without considerable political resistance. Rights to social benefits are now part of the economic fabric of society, and millions of Canadians have come to depend upon them. Governments will be able to limit payments to high-income earners because they will claim the moral and economic right to do so, and to the poorest income earners because this group lacks the political clout to protect itself.[68] They will meet stiff resistance if they endeavour to change dramatically the benefits of the vast middle class.

The social democratic ideas which came to fruition during the Depression and were transformed into social programs are deeply entrenched within our social consciousness. The belief that the state had to provide

security began as a reaction to the social conditions arising out of the Depression and became a dominant value of industrial society. The resulting programs have been designed to support the existing "free" market system and to confirm Canada's basic commitment to capitalism. Like the right to own property, or the right to vote, rights to social benefits will manifest the same resiliency to change as these other social structures. Governments may be able to reorganize the way that the programs are delivered; they may be able to shift the responsibility for program delivery to non-government organizations, or to alter the form in which the benefits are delivered; but they will find it very difficult to take back rights that have been conferred through social policies.

As concerned as Canadians may become about the size of the welfare system and the effect it may have on welfare recipients, they are continually conscious of the threats of illness, injury and unemployment to their own incomes. Canadians will not treat kindly any government which destroys the security provided by the income security system. Family allowance, old age security and medicare are seen as important programs for the middle class.

There are also many people in Canada who are philosophically committed to a "caring society." Allan Moscovitch in a review of the Canadian welfare state points out that:

> There are those who believe not only in the collective obligation of society to provide for the welfare of its citizens but that this obligation and the possibility of partaking of its social services anywhere in the country constitutes the essence of a nation.[69]

Governments have endeavoured to change the fundamental nature of social welfare programs many times and have so far failed. This failure is not the result of a lack of effort, but rather because of the fact that income security is a deeply entrenched part of the structure of Canadian society.

Notes

This study was completed in November 1984.

1. For a detailed discussion of the policy-making process, see James J.Rice, "The Effect of Particular Variables on the Development of Canadian Public Policy" (Ph.D. diss., University of Exeter, 1977).
2. Phidd and Doern include "both the allocation of values and goals and also the selection of various governing instruments through which political authorities seek to secure compliance and/or support" in the politics of policy. See Richard W. Phidd and G. Bruce Doern, *The Politics and Management of Canadian Economic Policy* (Toronto: Macmillan, 1978), p. 9.
3. Dennis Guest, *The Emergence of Social Security in Canada* (Vancouver: University of British Columbia, 1980), p. 37.
4. For a detailed analysis of this act see Nancy O'Donnell, "A Diagnosis by Ideology: Ideological Perspectives on the Formation of Pension Policy in Canada," chap. 3 (Ph.D. diss., McMaster University, 1984).
5. The highlights are summarized from Nancy O'Donnell, ibid., pp. 121–30.
6. House of Commons, *Debates*, 1926: 560–61.
7. Kenneth Bryden, *Old Age Pensions and Policy-Making in Canada* (Montreal: McGill-Queen's University Press, 1974), p. 70.
8. Ibid., p. 77.
9. Guest, *Social Security in Canada*, p. 79.
10. Irving J. Goffman, "Canadian Social Welfare Policy" in *Contemporary Canada*, edited by Richard H. Leach (Toronto: University of Toronto Press, 1968), p. 200.
11. Richard J. Van Loon and Michael S. Whittington, *The Canadian Political System, Environment, Structure, and Process* (Toronto: McGraw-Hill, 1971), p. 19.
12. Declaration of principles passed at the first annual convention of the Co-operative Commonwealth Federation, Regina, 1933.
13. The Canadian Welfare Council, labour unions, and church groups were demanding unemployment legislation. Two new political parties, the CCF and The Social Credit party, were also demanding new welfare legislation. See Guest, *Social Security in Canada*, chap. 7, "The Depression Decade."
14. Marsh was one of the major welfare advocates who sought to have the federal government increase its welfare programs.
15. Ramesh Mishra, *The Welfare State in Crisis* (Brighton: Harvester Press, 1984), p. 7.
16. For a range of interpretations on partisan party politics and the general dynamics of public-private power, see Reginald Whitaker, *The Government Party* (Toronto: University of Toronto Press, 1977); David Lewis, *The Good Fight* (Toronto: Macmillan, 1981); Robert Bothwell, Ian Drummond and John English, *Canada Since 1945: Power, Politics and Provincialism* (Toronto: University of Toronto Press, 1981); and Jack L. Granatstein, *The Politics of Survival* (Toronto: University of Toronto Press, 1967).
17. Guest, *Social Security in Canada*, p. 92.
18. John C. Strick, *Canadian Public Finance* (Toronto: Holt, Rinehart and Winston, 1978), p. 105.
19. Guest, *Social Security in Canada*, p. 109.
20. Leonard Marsh, *Report on Social Security for Canada* (Toronto: University of Toronto Press, 1975), p. 11.
21. Ibid., p. 14.
22. Guest, *Social Security in Canada*, p. 113.
23. Ibid., p. 138.
24. Keith G. Banting, *The Welfare State and Canadian Federalism* (Kingston: McGill-Queen's University Press, 1982), pp. 75–77.
25. See Neil Gilbert and Harry Specht, *Dimensions of Social Welfare Policy* (Englewood Cliffs: Prentice-Hall, 1974), for an excellent discussion of these dimensions.

26. For a discussion of the stigmatizing effects of social welfare programs, see Andrew Armitage, *Social Welfare in Canada: Ideals and Realities* (Toronto: McClelland and Stewart, 1975), pp. 29–32.
27. Richard Simeon, *Confrontation and Collaboration — Intergovernmental Relations in Canada Today* (Toronto: Institute of Public Administration of Canada, 1979), p. 9.
28. Banting, *The Welfare State*, p. 77.
29. Many papers and books have been written about the politics of the development of each program. See for example Keith Banting, *The Welfare State and Canadian Federalism* (Montreal: McGill-Queen's University Press, 1982); Malcolm Taylor, *Health Insurance and Canadian Public Policy*; Kenneth Bryden, *Old Age Pensions and Policy Making in Canada* (Montreal: McGill-Queen's University Press, 1974); Stefan Dupré et al., *Federalism and Policy Development* (Toronto: University of Toronto Press, 1973); and Richard Simeon, *Federal-Provincial Diplomacy* (Toronto: University of Toronto Press, 1972). In addition, some of the broader issues are examined in other papers for the Royal Commission; see David Wolfe's study "The Politics of the Deficit" in this volume.
30. For a comprehensive overview, see G. Bruce Doern and Richard W. Phidd, *Canadian Public Policy: Ideas, Structure, Process* (Toronto: Methuen, 1983), particularly chaps. 8, 10, and 14.
31. Richard M. Coughlin, *Ideology, Public Opinion and Welfare Policy* (Berkeley: University of California, Institute of International Studies, 1980), p. 31.
32. N. Harvey Lithwick and John Devlin, "Economic Development Policy: A Case Study in Underdeveloped Policy-Making" in *How Ottawa Spends 1984*, edited by Allan M. Maslove (Toronto: Methuen, 1984), p. 122.
33. Harold Wilensky and Charles Lebeaux, *Industrial Society and Social Welfare* (New York: Russell Sage, 1958), p. 138. Denis Guest employed a similar analysis in his examination of social security in Canada; see Guest, *The Emergence of Social Security*.
34. Thomas H. Marshall, *Sociology at the Crossroads* (London: Heinemann, 1963).
35. Banting, *The Welfare State*, p. 171.
36. Goffman, "Canadian Social Welfare Policy," p. 214.
37. Economic Council of Canada, *Fifth Annual Review* (Ottawa: Queen's Printer, 1968).
38. Ian Adams, William Cameron, Brian Hill, and Peter Penz, *The Real Poverty Report* (Edmonton: Hurtig, 1971).
39. Gordon Robertson, "The Role of Interministerial Conferences in the Decision-Making Process" in *Confrontation and Collaboration — Intergovernmental Relations in Canada Today*, edited by Richard Simeon (Toronto: Institute of Public Administration of Canada, 1978), p. 81.
40. Simeon, *Confrontation and Collaboration*, p. 4.
41. Economic Council of Canada, *On the Mend* (Ottawa: Minister of Supply and Services, 1983), p. 12.
42. National Health and Welfare, *Income Security for Canadians* (Ottawa: Queen's Printer, 1970), p. 1.
43. Richard J. Van Loon, *Reforming Welfare in Canada: The Case of the Social Security Review* (Ottawa: Carleton University, School of Public Administration, 1978), p. 35.
44. Minister of Health and Welfare, *Working Paper on Social Security in Canada*, also referred to as the "Orange Paper." Ottawa.
45. H. Philip Hepworth, "Federal-Provincial Cost-Sharing of Social Service Programs: Is There a Crisis?" A paper prepared for presentation to members of the University of Manitoba School of Social Work and the Manitoba Association of Social Workers, March 1, 2, 1979, p. 6.
46. Van Loon, *Reforming Welfare in Canada*, pp. 2, 47.
47. Ibid., p. 2.
48. Wilensky, for example, believes that states with "internal cleavages" which divide up responsibility for social welfare will face greater resistance to welfare development,

given a challenge from the right, than centralized states. See Harold Wilensky, *The Welfare State and Equality* (Berkeley: University of California Press, 1975), p. 68.

49. Banting, *The Welfare State*, p. 70.
50. Ibid., p. 118.
51. For a detailed discussion of the importance of the welfare system to Canadian federalism, see Banting, *The Welfare State and Canadian Federalism*, particularly chap. 7.
52. Banting, *The Welfare State*, p. 119.
53. Milton Friedman, on the television program "Sixty Minutes," November 28, 1976; James O'Connor, *The Fiscal Crisis of the State* (New York: St. Martin's Press, 1973), p. 221.
54. George Gilder, *Wealth and Poverty* (New York: Bantam Books, 1982). See also F.A. Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas* (Chicago: University of Chicago Press, 1978).
55. Mishra, *The Welfare State In Crisis*, p. 27.
56. Allan Moscovitch, "The Rise and Decline of the Canadian Welfare State," *Perceptions* 6 (November-December 1982).
57. David Ross, *The Working Poor* (Toronto: James Lorimer, 1981), p. 67.
58. Economic Council of Canada, *A Time For Reason* (Ottawa: Information Canada, 1978), and the Canadian Council on Social Development, *Social Policies for the Eighties* (Ottawa: Minister of Supply and Services Canada, 1980).
59. Audrey Doerr, "Public Administration: Federalism and Intergovernmental Relations," *Canadian Public Administration* 4 (Winter 1982): 564.
60. Simeon, *Confrontation and Collaboration*, p. 2.
61. See the Parliamentary Task Force on Federal-Provincial Fiscal Relations, *Fiscal Federalism in Canada* (Ottawa: Minister of Supply and Services Canada, 1981).
62. Allan Moscovitch, "The Welfare State Since 1975," prepared for the *L'Association d'économie politique* conference, 1983, p. 9.
63. For a discussion of the factors effecting this transformation, see James J. Rice, "Social Policy, Economic Management, and Redistribution" in *Public Policy in Canada*, edited by G. Bruce Doern and Peter Aucoin (Toronto: Macmillan, 1979).
64. For a description of the attack on welfare, see Michael J. Prince and James J. Rice, "Department of National Health and Welfare: The Attack on Social Policy," in *How Ottawa Spends Your Tax Dollars*, edited by G. Bruce Doern (Toronto: James Lorimer, 1981).
65. Keith G. Banting, "The Social Policy Reformer in the 1980s," *Perceptions* 5 (June 1982), p. 76.
66. See Lester C. Thurow, *The Zero-Sum Society* (New York: Basic Books, 1980).
67. The earlier era of "cooperative federalism" is often remembered in the fond glow of hindsight which distorts what actually happened at the time. Many of the programs were the subject of intense dispute along all dimensions, intergovernmental, partisan and public-private.
68. For a full discussion of the implications of the tax system for the poor, see Ernie S. Lightman, "A Background Paper and Pre-Budget Submission to the Minister of Finance," prepared on behalf of the National Anti-Poverty Organization, January, 1984.
69. Moscovitch, "The Rise and Decline of the Canadian Welfare State," p. 28.

The Politics of Labour Market Policy

LEON MUSZYNSKI

Introduction

This paper traces the political evolution of labour market policy in Canada from World War II to the present, with a focus on the past two decades. As a political inquiry it seeks to identify two essential dimensions of politics: (a) the basic ideologies, values, ideas, and concepts that have shaped labour market policies in the past several decades; and (b) the power of various contending interests and their influence on the formation of labour market policy.

As a policy field, labour market policy encompasses those actions that affect the supply and demand for labour as well as the labour process itself. The field is a much larger subject than this paper can hope to embrace; it includes industrial relations policy, immigration policy, education, and aspects of economic policy such as labour adjustment. This analysis concentrates on three elements of labour market policy — unemployment insurance, vocational training and direct job creation — which make up what has historically been termed "manpower policy." Since 1966 manpower policy has been primarily the responsibility of one ministry at the federal level: initially Manpower and Immigration, later renamed Employment and Immigration.

The three policy areas examined have been linked conceptually and practically as tools to manage effectively the supply and demand for labour. They have been used both as economic policy, to achieve growth and equity objectives, and as social policies, to provide social support and contribute to greater social equity. The central social and economic problem to which these policies are repeatedly addressed is unemployment. Consequently this paper uses the unemployment variable as a

focus for the measurement of political influence and political commitment.

Labour market policies deal with both cyclical and structural unemployment. Cyclical policies are concerned with recession-induced unemployment — unemployment due to a lack of sufficient demand for labour. Unemployment insurance is the best example of this kind of policy, although job creation has cyclical aspects as well. Structural policies deal with unemployment that results from structural change in the economy or the labour force. Changes in labour force participation or technology are structural alternatives to which direct job creation and training programs are geared.

On the normative political level, the key issue that has shaped public policy revolves around the perception of the appropriate role of government in the realization of social and economic objectives. Increasingly, this issue involves a debate about the seriousness of unemployment and its contemporary causes and characteristics. The central political question is the extent to which government is responsible for alleviating labour market hardships. In addition, labour market policy is influenced by contending ideas about training versus education, and about the justice and equity of claims by various categories of workers including males, females, the young, the unemployed and the employed.

On the social/institutional level, two sets of key interests and their relationships are significant: intergovernmental interests, primarily those of the federal and provincial governments, and private sector/public sector relationships, chiefly involving the role of unions and business in the formation of public policy. Intergovernmental politics in the labour market policy field are influenced by the interaction between fiscal federalism on one hand and the assigned constitutional responsibilities of the provinces on the other. Federal-provincial conflict has resulted, particularly in the area of training, where the provinces have perceived federal initiatives in aid of national economic objectives as a threat to provincial jurisdictional responsibility for education. Similarly, although a constitutional amendment in 1940 did grant the federal government sole responsibility for unemployment insurance, federal efforts to alter the provision of unemployment insurance have frequently run into opposition from the provinces, who are concerned about the inevitable impact of such changes upon provincial responsibilities for social assistance.

The key private interests in the labour market are its principal actors, business and labour. It is not surprising that these two groups frequently find themselves on opposite sides of issues such as the adequacy of unemployment insurance or commitments to reducing unemployment through job creation. By definition, labour sells itself for wages, and it is the adequacy and consistency of wage income that determine the well-being and therefore the interests of labour.

Business, or capital, seeks to maximize profits, and this often means minimizing wages. Thus, employers will advocate restricted access and lower benefits under unemployment insurance because of the perceived impact of the program upon wages and the flexibility of labour. However, it is sometimes necessary to differentiate among interests within these two categories. The demands of small business and the perceived needs of unorganized labour or of public sector workers are not always the same as those of big business and organized labour as a whole.

This paper looks at the development of labour market policy within the context of the postwar commitment to Keynesianism and the evolution of the welfare state. It suggests that Canada's commitment to full employment was never very firm: Keynesian interventionism was de-emphasized in an effort to reinforce the primacy of private sector investment. Nevertheless, the model that evolved was Keynesian in that the federal government increasingly used demand management to stabilize the economy.

Rising unemployment in the late 1950s, growing reform sentiment, and a recognition of the limits of demand management helped accelerate the expansion of active labour market policies in the 1960s. Within this context, major intergovernmental and private/public battles helped shape training and employment policy. Chief among these were federal-provincial jurisdictional disputes over control of the system of vocational training. Provincial interest in maintaining an established education infrastructure helped reinforce private industry's rejection of on-the-job training.

The concept of an active labour market policy achieved broad consensus in the 1960s because of its claims to meeting the objectives of growth, equity and stabilization simultaneously. The expansion of training and unemployment insurance and the introduction of community-based job creation in the late 1960s to early 1970s were a reflection of the continued political as well as economic commitment to the development of the welfare state and the use of demand management. In the mid-1970s this direction was substantially modified, however, as Canada, along with all Western nations, faced rising unemployment, a growing public debt and apparently intractable inflation; phenomena that Keynesianism could not effectively explain as simultaneous occurrences.

Canada's interpretation of and response to these events were conservative. In 1975 the federal government modified its traditional program of counter-cyclical stabilization and set out in a new political and economic direction influenced by the conservative ideas of monetarism. This shift in policy was reflected in the field of labour market policy by successive reductions in unemployment insurance and direct job creation spending. New labour market policies were increasingly geared to meeting the specific needs of industry and reducing pressures on wage growth. New theories of unemployment emerged from the conservative

paradigm and identified labour supply factors as the main causes of increased levels of unemployment. These theories have been used to justify reduced commitments to lowering unemployment.

By the early 1980s, increasing attention was directed to creating the necessary conditions for effective economic adjustment to a more competitive international economic environment. The function of labour market policy has been increasingly to assure that capital mobility and efficiency are not impeded by labour rigidities or bottlenecks. Within this context of change, the right of workers to search for the best available jobs has been eroded. The notions of supply and demand have been rescued as the determinants of economic progress.

In this respect there is evidence that Canadian labour market policy operates in marked contrast to that of many European countries. While Canada's policy currently attempts to strengthen the coercive force of the market, many European countries have placed greater emphasis on intervention in the labour market to encourage job security, job continuity and low unemployment. This approach stems from a greater political commitment to the maintenance of full employment and social equity. The differences in policy reflect Canada's different political configurations as compared to those of many European countries, where democratic and socialist influences, combined with well-organized and powerful trade unions as well as institutional structures for interest mediation, have resulted in more committed efforts to reduce unemployment through macroeconomic and labour market policies.

Canada's level of unemployment, then, is in a significant way the product of political choice. It is a reflection of the weakness of organized labour and the dominance of neo-conservative ideology in business and government.

The Historical Context

Political Keynesianism

The devastation of the Depression of the 1930s taught most Western governments one thing: that they could not rely on the free play of market forces to sustain low levels of unemployment and high levels of growth. The Keynesian solution, wherein governments would intervene in markets, was embraced by these nations in the post-Depression period. This solution offered the prospect of full employment if governments pursued fiscal and monetary policies to manage and stabilize overall economic demand. In response to socialist admonitions that capitalism had proved itself incapable of alleviating the hardship of unemployment, Keynesianism offered the blueprint for a stable "full-employment capitalism." Thus, Keynesianism not only presented itself as an economic alternative in the face of the need for economic stabiliza-

tion, it was also very much viewed as a political alternative to socialist arguments for public ownership and central economic control and planning.[1]

Canada outlined its plan for postwar reconstruction in the 1945 white paper, *Employment and Income with Special Reference to the Initial Period of Reconstruction*. The white paper stated an "unequivocal commitment to the adoption of high and stable levels of employment and higher standards of living for all Canadians."[2] The tools designed to achieve these ends were the judicious use of tax and expenditure policies. In periods of high unemployment, the federal government would incur deficits by way of reducing taxes or increasing expenditures, and in buoyant periods it would incur surpluses.

Several things stand out with respect to Canada's commitment to postwar reconstruction. The first is the government's lack of complete support for the goal of full employment. Lord William Beveridge, British author of *Full Employment in a Free Society*, had defined full employment as:

> . . . always having more vacant jobs than unemployed men, not slightly fewer jobs. It means that the jobs are at fair wages, of such a kind, and so located that unemployed men can be reasonably expected to take them. It means that by consequence, the normal lag between losing one job and finding another will be very short.[3]

The Beveridge position meant that no one who wanted to work should be without work, and the only acceptable kind of unemployment would be that which economists now refer to as "frictional" unemployment. Indeed, although frequent reference is made to the Canadian postwar commitment to full employment, the minister responsible for postwar reconstruction, C.D. Howe, had the term "full employment" (which was used in the original draft of the white paper, prepared by W.A. Mackintosh) replaced by "high and stable levels of employment" because he believed full employment an impossible goal.[4] This lack of clear commitment to full employment was also expressed by Canada's support of the United States in arguing against the inclusion of a commitment to full employment in international agreements such as the Founding Charter of the United Nations.[5]

Writing on the political aspects of full employment in 1943, Michael Kalecki attempted to explain why governments would avoid a commitment to it. He pointed to the economic potential of Keynesian public intervention for the achievement of full employment.[6] But he saw the business sector opposed for political and ideological reasons. Business was generally opposed to government interference in the economy; it feared the dilution of the profit motive as the engine of economic growth by the social/political motives of government, and it feared public attempts to influence private investment decision making.

Kalecki also argued that business would reject the new role of government in stimulating demand because government intervention would raise the security of workers and thus put upward pressure on wage structure. Unemployment, on the other hand, was an important disciplinary device for the work force. Full employment, he argued, ultimately meant that labour would acquire more power and of necessity, free enterprise economies would have to develop new social and political institutions to adapt to this shift in power. Kalecki was personally not optimistic about the potential for such adaptation, but the business response he described highlights the political conflict issues inherent in the earliest Keynesian formulations.

The Keynesian prescription emphasized the need for both public and private investment as well as state expenditures, and for high and stable consumer expenditures. Business resisted Keynesian interventionism, but the white paper calmed business's fears by assuring the primacy of the private sector. Intervention would focus primarily on maintaining consumption, while the private sector would determine investment priorities; so much so that Apple has argued, in reviewing the Canadian, Australian and British white papers on postwar reconstruction, that Canada gave considerably more prominence to private enterprise than did the other two countries.[7]

Armed with the new Keynesian tools of fiscal management, the federal government was to take a decisive role in the determination of subsequent developments, not only in economic policy, but in social and labour market policies as well. This was not a new role for the federal government. Because the postwar economic strategy was founded upon a heavy reliance on staple export trade and the need to import foreign capital, the strategy amounted to a continuation of a historical tradition that required a strong federal government.[8] The white paper did not signal a radical departure for Canadian public policy and intergovernmental relations; Mackintosh noted that it was simply "a realistic recognition of what had become an obligation of every government, not of choice but of necessity."[9] Following the federal bailout of the provinces during the Depression and federal occupancy of major tax fields, it became a basic assumption of federal officials that postwar reconstruction would be under the direction of the federal government. This does not mean that federal-provincial cooperation was to be a simple matter; in fact the postwar period has been characterized by federal-provincial struggles over jurisdictions, revenues and objectives.

What is perhaps more important, as Mackintosh suggests, is the extent to which the Keynesian commitment represented an "obligation" and not a "choice."[10] Early commitments to unemployment insurance, family allowance, housing assistance, and assistance to farmers and fishermen were obligatory economically, to stabilize demand. But the particular shape of these policies followed from government's political

obligation to meet the demands of workers and the poor. In this way Keynesianism as political philosophy might be interpreted as a pre-emptive strategy to siphon off the support otherwise provided to left-wing parties or formations. In the postwar period the growing power of the left was no small matter of concern to the federal Liberal party: by 1944 the Co-operative Commonwealth Federation (CCF) had become the official opposition in Ontario and British Columbia; it formed the provincial government in Saskatchewan and was an electoral threat in Ontario and at the federal level as well. Labour militancy during the war also influenced the perception of a federal obligation to achieve high employment and stable incomes.

Postwar Labour Market Policy

Britain's plan for postwar reconstruction, embodied in Beveridge's 1942 report, *Social Insurance and Allied Services*, received attention on both sides of the Atlantic. Beveridge advocated: (a) a comprehensive and universal social insurance plan to meet the needs of workers during interruptions or loss in earning power arising from sickness, disability, unemployment or old age; and (b) a system of child allowances to offset the failure of the wage system to account for family size.[11] These proposals were directed primarily at the alleviation of want or poverty, a condition Beveridge believed to have its origin in the failure of the labour market. But just as important was how, in Keynesian terms, the proposals contributed to economic stability and growth.

Canada's counterpart to the 1942 Beveridge report was Leonard Marsh's 1943 *Report on Social Security for Canada*. The Marsh report documented the existence of poverty and unemployment in Canada and the inadequacies of the existing income security system. It set out a comprehensive plan for income and employment security for Canadians. In this respect, it went far beyond the Beveridge plan, outlining the need for full employment and the vigorous use of public investment, employment, and training policies to achieve it. The Marsh report thus constituted a blueprint for postwar labour market policy.

The federal plan for postwar reconstruction was ultimately embodied in proposals presented to the 1945 Dominion-Provincial Conference on Reconstruction. The Marsh proposals were ignored; no reference was made to the Marsh report at the conference, and the report was never tabled in Parliament. It may be that the most politically objectionable aspect of the Marsh proposals was their centralizing tendency — the report recommended that Ottawa be responsible for all unemployed persons who were employable — although the cost of the proposals was also a serious impediment to their acceptance by federal politicians.[12] The final social security proposals made by the federal government to the 1945 conference were modest by comparison. The focus of postwar

efforts was to be on economic development and employment rather than on the comprehensive income and employment security measures outlined by Marsh.

The federal proposals were offered within a clear statement of commitment to a free enterprise economy. They were to include income security measures (most important were universal old age pensions and unemployment assistance), a program of public works, fiscal measures to redistribute taxing powers between the federal and provincial governments, and programs to assist the private sector in economic development. These proposals required a continuation of federal occupancy of tax fields, which it had assumed of necessity during the war.

It was on the issues of fiscal payments to the provinces and the redistribution of taxing powers that the conference finally broke down. No agreement was reached and the federal proposals were shelved. For the time being, federal efforts to expand the social security system and public investment would have to wait. The proposals would be implemented, but on a piecemeal basis whenever federal-provincial agreement could be reached on a specific program or tax issue.

The first major piece of labour market legislation implemented in Canada was in fact the 1940 Unemployment Insurance Act. The act sought to cover 75 percent of the work force; benefits were to be linked to wages lost, and financing would be primarily through contributions made by employers and employees. Initial efforts by the Bennett government of the 1930s to implement a national unemployment insurance (UI) program were ruled ultra vires by the Supreme Court because the program was to be a compulsory insurance program. It took the Mackenzie King government three years to secure the constitutional amendment that would allow the 1940 Unemployment Insurance Act. The National Employment Service (NES) was established at the same time as unemployment insurance to administer employment services run by the Unemployment Insurance Commission.

A major factor motivating the adoption of unemployment insurance during and after the Depression was the financial burden imposed upon municipalities, provinces and the federal government for relief payments to the unemployed. But analyses by Finkel and Cuneo of the events that surrounded its adoption suggest a more political explanation. As a new program, they argue, UI was intended to quell the severe social tensions created by high unemployment.[13] Opposition to the program was mounted by business, led by the Canadian Manufacturers' Association. Business objected to the high cost to industry and to the expected effects of the program on work motivation and mobility. Labour strongly supported the unemployment insurance program but was initially opposed to a contributory scheme for financing it, favouring instead financing out of general tax revenue.

The importance of the unemployment insurance program in labour market policy terms lay in its establishment of a new social minimum. One of the aims of the legislation was to protect the normal standard of living of the wage earner. However, the wage replacement levels were calculated on the basis of contributions, and many classes of workers were excluded, including anyone who earned more than $2,000 per year. Actual coverage applied to only 42 percent of the labour force. The protection of a normal standard of living objective had come into severe conflict with the perceived need to maintain work incentives. Leonard Marsh noted in the *Report on Social Security for Canada* that benefit levels did not provide "a living wage," and that the labour force was not adequately covered.[14]

Marsh's criticism of the adequacy of the unemployment insurance program in 1943 led him to recommend an expansion of benefits and eligibility. These proposals, coupled with his extensive proposals for training and public sector employment initiatives, constituted at the time an extremely far-reaching labour market policy plan. The plan was not embraced by the federal government as part of the postwar strategy, not only because of its fiscal implications and the difficulties of federal implementation in provincial areas of social policy, but because as social policy measures, the proposals were in themselves a threat to the primary orientation of the postwar plan: to reinforce market forms of distribution and private sector decision making.

There were further reasons why labour market policy did not take a prominent place in the formation of postwar economic policy. First, postwar economic growth and prosperity served to de-emphasize the social policy goals inherent in proposals such as those by Marsh. Second, both Keynesian and neoclassical economic theory of the time saw little need to develop labour market policies. The neoclassical model assumed that markets were "perfect," or at least would tend toward perfection if left free and unimpeded. The Keynesian model made similar assumptions about the operation of labour markets but argued that adjustments were required at the macroeconomic level. Keynesianism thus acknowledged a role for unemployment insurance, but principally in its counter-cyclical function of maintaining consumer demand during periods of high unemployment.

A third reason for minor initiatives, at least in the area of training, was that as a matter of policy in the postwar period, skilled workers were secured chiefly through immigration.[15] The need for active development of skill training programs in Canada was thus precluded, since companies could readily draw on skilled workers from Europe. Finally, a fourth reason for the lack of attention to labour market policy was the complexity associated with the federal primary responsibility for economic policy and provincial jurisdictional responsibility for education.

The principle of preserving federal involvement in training, however limited, because of its importance for the achievement of national economic objectives had been accepted since the passage of the Technical Education Act of 1919. But the postwar plan required that the federal government play a more instrumental role in maintaining macroeconomic objectives. This principle of federal responsibility for the levers of demand management opened up new policy areas for government influence in the fields of training and education, despite their constitutionally assigned responsibility to the provinces. One early example of a federal move into this policy area was the beginning of federal funding of provincial universities on a 50 cents per capita basis in 1951–52.

Despite postwar prosperity and what, by today's standards, would be considered relatively low levels of unemployment, labour market problems were not solved. "Soup lines" emerged in some major Canadian cities for the first time since the 1930s.[16] The inadequacies of the Unemployment Insurance Act were becoming apparent. The original act had been amended many times, but the changes were mostly of a minor, technical nature. More significant changes were made in 1955 in a completely revamped act, including some restrictive and some expansive modifications that represented, if anything, a modest liberalization of the program.

By 1956, as a result of rising unemployment, the federal government in consultation with the provinces passed the Unemployment Assistance Act. The act represented a federal-provincial cost-shared effort to provide means-tested assistance to those in financial need who were not covered by or had exhausted their unemployment insurance benefits. Postwar prosperity might have weakened the political justification for expanding unemployment insurance along the lines proposed by Marsh a decade earlier, but it had not alleviated the need. Marsh's plan had distinctly identified the first priority for the expansion of social security: a strengthening of what he believed to be a weak Unemployment Insurance Act.[17] This measure further reflects the clearly residual orientation of federal income security policy of the period.

The Active Labour Market Policy

By the late 1950s it was clear that labour markets did not operate in the manner predicted by Keynesian and neoclassical theory. Labour markets were not perfect, and demand management alone could not ensure full employment. There were many barriers to employment, including the lack of mobility, the lack of information and, not least, the lack of appropriately skilled workers for available jobs. Unemployment was increasingly understood as a complex phenomenon that could not be attributed solely to the lack of economic demand. The notion of struc-

tural unemployment was introduced to describe the phenomenon of misallocated labour.

Keynesian macroeconomic policy could not solve the imbalance between the demand and supply of labour. New policy ideas for a solution to the structural problem in the labour market emerged from the Economic Council of Canada (ECC). In its first two annual reports, the council stressed the importance of "manpower policy" as a middle-level and medium-term supply-side tool to augment the macro Keynesian approaches, which tended to operate in the short term.[18] Emphasis was placed on the efficient use of labour resources and the need to train for a skilled technical labour force.

Several factors led to this new interest in labour market policy. Most important were the limitations of demand management policy in dealing with labour supply. The first waves of the postwar baby boom cohort were entering the labour market in the late 1950s and early 1960s. This influx of job seekers presented a critical need for the development of adequate training and education within the context of a rapidly changing economy. Dramatic changes were also occurring in the structure of the world economy and in employment and occupations in Canada, and were reflected in the shift from rural-based agriculture to urban-based manufacturing and service employment. Technological change raised the demand for skilled workers in factories, and the new occupations created in the service industries demanded new occupational training. Added to these factors was the perception that levels of education of the Canadian labour force on the whole were harmfully low; a situation that would, it was believed, impair the nation's ability to meet the challenge of growth expected for the 1960s. Finally, regional imbalances in employment and development were not believed to be effectively dealt with by the blunt instruments of aggregate demand management. All of these factors combined suggested a need for a shift in focus from a preoccupation with demand management to the necessity of dealing with supply management in order to secure economic growth.

Another factor was inflation and the results of research by economists on the trade-off between high inflation and unemployment. In charting the empirical relationship between inflation and unemployment, British economist A.W. Phillips had found a clear inverse relationship over several decades of British economic experience.[19] A similar relationship was confirmed in Canada by the work of Richard Lipsey.[20] Put simply, the theory, called the Phillips curve, suggested that there was a policy trade-off between inflation and unemployment. Traditional demand stimulation could bring unemployment down, but the cost would be higher inflation. Labour market policy offered policy makers another option: by improving the match between labour and jobs, it would help reduce inflationary bottlenecks such as the shortage of skilled workers and at the same time reduce unemployment. While not exactly viewed as

a panacea to the problems of the 1960s, labour market policy was offered as a solution to the economic impediments to growth without inflation.

The newly established Organisation for Economic Co-operation and Development (OECD) became active in the 1960s by promulgating among its member countries the concept of an active labour market policy. The OECD's Manpower and Social Affairs Committee issued a report in 1964 recommending that member states pursue a "manpower strategy" as a means of achieving the perceived three mutually inclusive goals of growth, stabilization and equity.[21] The Economic Council of Canada, undoubtedly influenced by the OECD, echoed the enthusiasm for new policy initiatives to increase the availability of skilled and technical workers in its *First Annual Review* in 1964. The unique appeal of these policies was their perceived ability to encourage growth by adjusting labour resources to match the structural changes in the economy, while improving the trade-off between unemployment and inflation by stabilizing employment during the downswing in the business cycle and removing inflationary bottlenecks during the upswing. As an added bonus the policies contributed to greater equity since they improved the income and employment prospects of the poor and the unemployed.

A third factor influencing the development of labour market policy was poverty. In the early 1960s the issue of poverty emerged on the political agenda once more. In part it was a spillover from the rediscovery of poverty in the United States. But it was also a recognition that for all the economic advances made since 1945, postwar prosperity and Keynesianism had not alleviated economic deprivation. In a strikingly forceful and progressive document, Tom Kent, a key Liberal policy strategist in the 1960s, outlined how Canada had failed to develop social policies for a war on poverty.[22] He proposed a strategy for social security, health, housing, and labour market policy; his agenda included raising unemployment benefits, providing training for the unemployed, and establishing incentives for capital stability.

The dominant perspective on poverty, following from neoclassical perspectives on the labour market, saw it linked to deficiencies in human capital. A person whose marginal productivity was not sufficiently high to be attractive to employers would more likely suffer from unemployment, underemployment and low wages. The solution, according to this perspective, was to improve the person's marginal productivity by investing in human capital improvements such as education and training, or by providing mobility assistance to find work or information about where jobs are located. This human capital explanation of poverty, with its corresponding solution, was elaborated by the Economic Council of Canada in its *Fifth Annual Review* in 1968.

A final reason for the development of an active labour market policy was more overtly political. The importance of Tom Kent's *Social Policy for Canada* lay in its charting of a new path for the Liberal party for the

1960s, since it drew on concepts discussed at the Liberals' 1960 Kingston conference, in which Kent was an active participant. The conference reflected a concern for the Liberal loss of electoral office to the Conservatives in the late 1950s, as well as the rising electoral interest in the newly formed New Democratic Party. By defining a progressive Liberal welfare agenda, Kent was drawing on one of the important functions of "political Keynesianism": that of pre-empting socialist and labour demands for the public management of investment and the alleviation of hardship from poverty and unemployment. It was a political strategy that was to prove effective for Liberal electoral success for many years to come.

The aforementioned conditions, along with shifts in theory and the new ideas associated with the "manpower solution," helped push the federal government into much more active labour market policies in the 1960s. This augmentation of macroeconomic policy with more selective labour market approaches would inevitably run into the problems of the underlying jurisdictional interests that exist in a complex federal-provincial system with provincial responsibility for training and education and federal responsibility for economic development.

Initiatives were slow at first. They started with the move of the federal government into the cost-sharing of provincial occupational and technical training under the new Technical and Vocational Training Act (TVTA) of 1960. TVTA provided conditional grants to the provinces to assist them in the expansion of occupational training in high schools and post-secondary technical and vocational schools. It also provided capital costs for the expansion of facilities and equipment for provincially run training. As it turned out, it was in this latter category that TVTA had its greatest impact. Seventy-five percent of TVTA funds were spent on capital costs in the establishment of provincial training facilities.[23]

From a federal point of view, TVTA was not at all successful in achieving its desired objectives. There was low take-up of federal dollars by the provinces and low demand for training, and where training dollars were spent they were used primarily in provinces with relatively low unemployment. To the extent that the federal government wanted to use training to combat unemployment and for regional development, the program was not effective. Perhaps even more importantly, the federal government did not receive the recognition it felt it deserved from the magnitude of its spending on training.[24]

The unequal or "misallocated" regional uptake of funds was the result of a flat-rate financing system that clearly put have-not provinces at a disadvantage. Those that could afford it the least were, from an unemployment point of view, the ones that needed it the most. Quebec was one of the provinces least able to use cost-shared funds because until the mid-1960s it did not even have a ministry of education.

Low enrolment was partly the result of the low level of living allowances paid to enrollees and the fact that they lost unemployment insurance credits while on training allowances. Modifications to TVTA were made in 1966 in an effort to remove these impediments, but it was soon after that an entirely new framework for training was adopted by the federal government. The "misallocation" of funds that led to the program's failure underlines the interplay among objectives that has plagued labour market policies since their inception. Conceived as devices to assist in economic efficiency and growth by matching labour to demand, the policies inevitably become at least partially a form of stabilization and welfare, providing assistance to those without jobs.

The 1957–62 recession had strained the funds of the Unemployment Insurance Program. In 1961, E.G. Gill, an insurance executive, was appointed to head the Committee of Inquiry into the Unemployment Insurance Act. The work of the Gill committee served to highlight not so much the problems with unemployment insurance as the inadequacies of federal labour market policy in general. The role of the National Employment Service, largely unchanged since its inception in 1940, was given special attention. The Gill committee was also influenced by the new labour supply-side orientation of economic theory, and its recommendations contributed eventually to the reorganization in 1966 of labour market policies within one new federal ministry, Manpower and Immigration. Unemployment insurance and placement were functionally separated (unemployment insurance remained with the Department of Labour until 1972), and emphasis was placed on intensive counselling and placement of individuals in training programs.

The establishment of Manpower and Immigration marked the dawn of modern labour market strategy in Canada. The new department was armed with an array of programs to assist in the improved allocation of labour. These included job placement mobility grants, adjustment assistance for laid-off workers, manpower consultative committees and, of course, training programs. Chief among these was the new Adult Occupational Training Act (AOTA).

AOTA was a radical departure from TVTA. It replaced a passive federal-provincial cost-sharing relationship with an active federal buy-sell arrangement. Under AOTA the federal government would purchase training spaces in provincially operated training and education institutions through the Canada Manpower Training Program (CMTP). The Canada Manpower Industrial Training Program (CMITP) would allow the government to subsidize employers for training provided on the job. Participants in Canada Manpower Centres (CMC), and allowances or unemployment insurance would support trainees for a maximum of 50 weeks. CMTP included the classroom portion of employer-sponsored apprenticeship training, academic upgrading, language training for immigrants, and job readiness training.

For the federal government, AOTA was a bold move. The program was unilateral and was imposed upon the provinces without much prior consultation. It was indeed a substantial new incursion into a field in which provincial governments had their own priorities and their own designs. AOTA was designed precisely to allow the federal government more direct control over the kinds of training offered, consistent with national economic objectives. Greater federal control would also allow for a better distribution of training funds to those provinces unable to meet effectively their share of a cost-shared arrangement. In addition, AOTA was to give the federal government a profile for the money it spent in the training field. The buy-sell relationship was seen as essential by the federal government to consolidate control, or at least a large measure of it, at the federal level. As Dupré et al. saw it:

> The direct procurement technique that is the essence of the buyer's approach is what permits the federal government to distribute training dollars among provinces by its own deliberate decision rather than by reliance upon unpredictable provincial responses to grant incentives. The upshot is that interprovincial equity can be served to the extent that federal authorities wish to pursue it.[25]

Not surprisingly, AOTA stimulated considerable opposition from the provinces, who were concerned about this apparently flagrant attempt to undermine provincial education responsibilities and objectives. Implementation of the program was not easy; imposing the new structure was impossible without some federal compromise.

The flexibility desired by the federal government was severely restricted by the limitations the provinces inserted in the policy in the negotiations that followed the announcement of AOTA. The provinces were not about to allow the federal government to undermine their own well-established institutions and policies on education. The federal government had to concede to maintaining institutional referrals for training at 90 percent of the person-days purchased the previous year. Thus, the structure of the occupational training system was reinforced in a way that limited the development of on-the-job training. In 1971 the Economic Council noted that in contrast to the United States, where over 75 percent of training dollars was spent on on-the-job training, Canada devoted only 3 percent to the same purpose.[26]

The achievement of federal goals was also restricted by the administrative difficulties of translating national policy objectives into guidelines for application at the CMC or local level. A key variable here was the ability of the CMCs to draw on the intelligence generated by the forecasters within the new Department of Manpower and Immigration. The strategy presumed that the federal government could plan effectively for skill training and labour market needs, an ability that was never successfully developed.[27]

It became apparent that the ambitious objectives of the active labour market strategy — growth, equity and stabilization — were not as complementary as had been theorized. Nor was it clear which objective was paramount. The Economic Council firmly believed that growth was the primary objective of the labour market strategy.[28] But Dupré et al. suggest that CMTP officials often had other priorities, including equity, in mind.[29] The changes introduced in the early 1970s to increase industrial on-the-job training and provide more training for the unemployed have been interpreted as the product of confused objectives and cynical political motives. Although on-the-job training was intended to contribute to economic stability, in fact it artificially reduced the rate of unemployment by redistributing unemployed trainees from institutions to the labour force.[30] This conclusion is reinforced by the fact that 40 percent of all federally purchased training was in Basic Skill Training — preparation for training, such as how to read or write — which again suggests that the program was oriented more toward the disadvantaged than toward the growth objective.

The Politics of the Active Labour Market Strategy

Several observations can be made on the political dynamics that shaped the active labour market policy of the 1960s. The 1960s saw the federal government presiding over an economic boom. Spurred along by exports in the auto industry as a result of the auto pact and energy exports, the unemployment rate dropped to 3.6 percent in 1966, just above the 3 percent level that the Economic Council of Canada had deemed "full employment." By the late 1960s economic growth continued and inflation climbed from a low of less than 1.0 percent in 1961 to 4.6 percent in 1969. Simultaneously rising inflation and unemployment created a contradiction for Canadian policy makers, demonstrating more strongly than ever one of the central limitations of macroeconomic demand management policy: the difficulty of achieving both low inflation and low unemployment. Federal policy makers were faced with increasing revenues as a result of the boom, and with the responsibility of managing growth without incurring inflationary destabilization. Active labour market strategies promised a resolution to the problem of growth and price instability and were seen as complementary policy tools along with social policies, regional policies, and education for purposes of general economic development — a clear federal responsibility. It is within this context that federal spending on training increased from $50 million in 1966 to $300 million in 1971.[31]

AOTA was only one demonstration of a new brand of federalism that had evolved since Pierre Trudeau, Gérard Pelletier and Jean Marchand joined the Pearson cabinet in the 1960s. The new federalism represented the belief in a strong federal government vis-à-vis the provinces and

reflected an approach that assumed less need to compromise on central political and economic issues. Within this context, labour market training was seen to be unequivocally and foremost a federal responsibility.

On the level of private/public political relationships, active labour market policy proved a remarkable and somewhat unique example of common interest. No other policy area generated the consensus and shared interest of business, labour, government and the Canadian population. It offered something to everyone. Business would be better served by having workers trained for it; government would be served by the growth and stabilization objectives; and labour, community and social policy interests would be served by the objectives of equity and human capital development. Indeed, the Economic Council of Canada, which had been established to promote, among other things, dialogue and consensus between business and labour on economic issues, found no better area of agreement than manpower policy.[32]

It would be a mistake, however, to view the problems of intergovernmental conflict as the sole political variable shaping the development of active labour market policies in the 1960s. Labour market policy was an essential part of the development of the modern welfare state. As such, its roots are firmly imbedded in political Keynesianism and the need of the state to balance the demands of interests with widely varying amounts of political power. Foremost among the tensions inherent in the equity orientations of the welfare state is the way market discipline is undermined. On training for growth there could be agreement; but consensus was less easily reached on such issues as what constitutes full employment, how far the state should go to reduce unemployment, and how high the social minimum should be.

The overall Liberal agenda for the establishment of the welfare state in Canada meanwhile had not been ignored. The Pearson era was the most active period in Canada's history for the development of social policies. It gave birth to the Canada/Quebec Pension Plan, the Canada Assistance Plan, the Medical Health Insurance Act, and cost-share funding for post-secondary education. By the end of the 1960s much of Canada's social expenditure was nondiscretionary, tied to the ageing of the population, the health of Canadians, the baby boom and urbanization. But as significant as these developments were, they were by no means an effort to restructure Canadian society fundamentally.

If poverty was rediscovered in Canada in the early 1960s, by the late 1960s its exact magnitude and character were more precisely defined. The Economic Council in its 1968 *Fifth Annual Review* identified poverty as a national disgrace. Poverty extended to at least one-third of Canadian households and had persisted through the "full employment" period of the 1960s. Of significance was the revelation that poverty was not just the preserve of native people, the elderly in rural areas, or broken families. The findings of the Special Senate Committee on Poverty headed by

David Croll, in its report in 1971, highlighted the fact that poverty was a reality for millions of Canadians who were in fact in the labour market. Fully one-half of all poverty in Canada was found to be among people who had low or intermittent earnings. Moreover, these and other, similar studies found an indefensible degree of inequality at the root of the poverty problem, as well as racial and sexual discrimination.[33]

The promises of the 1968 election for a "Just Society" rang hollow in the face of these revelations. Pressure for reform mounted, and reform proposals were presented by different parts of government, different governments and private organizations. Debate about the solution to the poverty and income distribution problem focussed on everything from the need for full employment to income security reform. The most significant proposals were in the income security area, and they revolved around the concept of a guaranteed annual income (GAI).

The federal strategy was offered in 1970 in a white paper called *Income Security for Canadians*, issued by John Munro, the minister of national health and welfare. Its most notable proposal was for a restructured family allowance program along selective lines, in order to increase the amounts going to low-income families with children. The Family Income Security Plan (FISP) never garnered support in cabinet or in Parliament because of its abandonment of universality, which was unacceptable to all three political parties, and its guaranteed income implications, which were unacceptable to the political right, especially in the Conservative and Liberal parties.

The report of Quebec's Commission of Inquiry on Health and Social Welfare (the Castonguay-Nepveu report) was considerably more radical, not only in proposing a guaranteed income to provide improved levels of assistance and supplementation to the working poor, but also in recommending that many of these areas be the responsibility of the province, or at least under its greater influence. The federal government believed that this recommendation amounted to a substantial intrusion into its necessary fiscal responsibility to ensure both fair and adequate redistribution and to achieve national economic goals. Debate ensued, ending in a stalemate at the 1971 Victoria conference. But the federal government felt that it had been upstaged, and that there was therefore both a real and a tactical need for reform.

Proposals for revisions to unemployment insurance amounting to a significant reform emanated from within the Privy Council in 1968.[34] Bryce Mackasey, the federal minister of labour, embraced the idea of a revised unemployment insurance program because of his sympathy for the particular benefits that such an expansion would have for labour. Moreover, where there was little support for the GAI concept because of its cost, the unemployment insurance reform option proved attractive because of its claim to be largely self-financing through employer and employee contributions.

The proposed revisions to unemployment insurance were outlined in the June 1970 white paper, *Unemployment Insurance in the 1970s*. The revisions included extension of coverage to previously excluded groups, so that 95 percent of the labour force would be eligible for benefits; a significant easing of the qualifying conditions; and an increase in benefit levels. Mackasey did not have an easy time selling the scheme in cabinet. Its success in being implemented has been attributed largely to his personal commitment and tenacity in the face of the fears of business, the provinces and the Department of Finance.[35] However, the political climate was ripe for income security reform, and what subsequently turned out to be a most controversial piece of legislation was passed rather easily into law in 1971.

Several important reasons were given for what became known as a "generous" unemployment insurance program. The first is the obvious contribution that it would make to income security reform at the federal level, in order to fulfil the Just Society promises of Pierre Trudeau in the 1968 election. A second is the way in which it was made attractive to its opponents by Mackasey in the process of lobbying for its support. Although it was not elaborated as such in the white paper, Mackasey argued in defence of the program's generosity by citing the important automatic stabilization function an expanded unemployment insurance program would have on the economy. Growing costs were, he argued, tantamount to tax cuts that would be required in any case as a countercyclical measure to increase consumer expenditure, stimulate production and reduce unemployment. Giving benefits to the unemployed was more effective because it would increase consumer expenditure where it was needed most. In response to critics from the business community who feared the costs if unemployment went up, he pointed out that this was a problem for the Department of Finance, which was equipped with the necessary fiscal tools to generate employment.[36]

A third purpose that was clearly elaborated in the white paper was UI's contribution to an active labour market policy strategy in the face of dramatic changes expected in the labour market in the 1970s. The white paper stressed the importance of providing services to the unemployed as part of the expansion of unemployment insurance and as a way of improving labour market performance. While the white paper did not anticipate an increase in overall unemployment, it did expect turnover in the labour market to increase dramatically because of economic change. Unemployment insurance was seen as an important motivator under these conditions, a view that is distinctly opposite to the conventional wisdom. As Leslie Pal argues:

> UI has traditionally been defended on grounds something like these. It is a program which permits people to either search longer for a job commensurate with their abilities or wait until economic conditions improve enough to

> supply such jobs. But the White Paper also implied that without a revised scheme, many unemployed workers in the 1970s would become discouraged and drop out of the labour market. The normal functions of that market, wherein unemployed workers eventually seek the best available job, would be thwarted. In an important sense therefore, the liberality of the program was designed to enhance work incentives.[37]

Despite this intention, the work incentive issue was seen as a problem, particularly for the Conservative opposition. Skepticism on the issue was countered with assurances that the policing function of the new unemployment insurance program would be much greater than in the old program.

Finally, the 1971 Unemployment Insurance Act was passed quickly because of the firm belief, reinforced by expert opinion, that the new plan would not cost the federal government any more than it had in the past. Yet the act did include a financing arrangement whereby federal direct contributions to the unemployment insurance fund were pegged to the unemployment rate. If unemployment exceeded four percent, the federal government would automatically pay for all regular and extended benefits due to that part of unemployment in excess of four percent. This was an implicit statement of responsibility by the federal government for the state of the economy and the maintenance of full employment.

In the early 1970s Canada introduced another labour market policy tool to augment the growing array of labour supply measures. Direct job creation was originally implemented in the early 1960s in the form of municipal winter works projects to alleviate the hardship of unemployment. It was resurrected in 1971 as the Local Initiatives Program (LIP) and Opportunities for Youth (OFY). Direct job creation represented a moderate shift in policy. Unemployment was on the increase, and questions were raised about the effectiveness of a labour market policy that was operating primarily on the supply side of the labour market. Although direct job creation was to operate on the demand side of the labour market, it had distinct structural purposes. LIP and OFY were designed with a focus on community development and innovative services, and were to provide employment to fit the characteristics of the unemployed, many of whom were young people. OFY in particular was envisaged as a challenge to the dissident youth movement of the late 1960s and early 1970s; it was an effort to institute a "participatory democracy" concept as espoused by the early Trudeau government. Both projects and their selection processes had a significant local orientation.

Direct job creation also signalled a change in the federal role in labour market policy. Before LIP and OFY, the federal government had played a largely passive role as the purchaser of provincial training. Through direct involvement in the creation of community-based jobs, it could now be active and maintain a high profile in the labour market.[38] The

new programs had implications for federal-provincial relations as well, as the fiscal strength of the federal government made an impact on communities, municipalities, and provincial government priorities in other areas.

The Contemporary Context

The Political Economy of the 1970s

Expansion in the 1960s was curtailed late in the decade, in part because of inflation and in part because of federal policy. The introduction of a restrictive federal and monetary policy helped push the unemployment rate up to 6.4 percent in 1971 (Table 5-1). Rising unemployment, par-

TABLE 5-1 Canadian Unemployment, 1954–83

	Unemployment Rate	Unemployment Number
1953	3.0	162,000
1954	4.6	250,000
1955	4.4	245,000
1956	3.4	197,000
1957	4.6	278,000
1958	7.0	432,000
1959	6.0	372,000
1960	7.0	446,000
1961	7.1	466,000
1962	5.9	390,000
1963	5.5	374,000
1964	4.7	324,000
1965	3.9	280,000
1966	3.6	267,000
1967	4.1	315,000
1968	4.8	382,000
1969	4.7	382,000
1970	5.9	495,000
1971	6.4	552,000
1972	6.3	562,000
1973	5.6	520,000
1974	5.4	525,000
1975	6.9	690,000
1976	7.1	726,000
1977	8.1	849,000
1978	8.3	908,000
1979	7.4	836,000
1980	7.5	865,000
1981	7.5	898,000
1982	11.0	1,314,000
1983	11.9	1,448,000

Source: 1953–74, Economic Council of Canada, *People and Jobs* (Ottawa: Minister of Supply and Services Canada, 1976). 1975–83, Statistics Canada, *Labour Force Annual Averages, 1975–83,* cat. no.71–529.

ticularly among women and young people, and growing political opposition to it leading up to the 1972 federal election resulted in pressure on the federal Liberals to reform the unemployment insurance program and create jobs. This pressure was relieved not long after because of an upturn in economic activity.

Several factors contributed to a strong surge in economic growth in the early 1970s. Monetary policy was eased substantially, and an expansionary fiscal policy was pursued. The commodity price boom of 1972–74 had a particularly beneficial impact on Canada, given the country's resource export orientation. The nation's terms of trade were significantly improved; the growth rate of gross national product averaged 7 percent from 1971 to 1973. Unemployment was reduced moderately to 5.4 percent in 1974, but inflation rose dramatically. Between 1971 and 1974 the annual change in the Consumer Price Index rose from 2.9 percent to 10.9 percent. This inflationary surge had a significant impact on the Canadian economy and on subsequent policy directions of the federal government. It provided a substantial boost to federal revenues because the personal income tax system, not yet indexed to the rate of inflation, captured inflationary rises in salaries by pushing taxpayers into higher marginal tax brackets. At the same time the commodity price boom, with its impact upon tax revenues, helped to fill federal and provincial coffers.

By 1974, partly as a result of the oil price shocks, Western industrial nations had fallen into an economic slump. Still, unit labour costs in Canada continued to rise while the appreciation of the value of Canada's dollar on world markets contributed to a dramatic decline in the nation's international competitiveness in the world economy, particularly vis-à-vis its largest trading partner, the United States. The demand for Canada's products on world markets declined and the demand for imports fuelled by domestic expansion rose, leading to an increase in the market share of imports and a shift to a deficit position in the current account of the international balance of payments.

In response to the recession, the 1974 federal budget was somewhat more expansionary in an effort to stimulate demand and sustain employment. By 1975 the federal government was convinced that its 1974 budget had exacerbated the situation by intensifying the inflationary spiral and worsening the balance of payments problem. The Keynesian formula that had dominated the postwar period was, according to David Wolfe, regarded with increasing skepticism by federal policy makers.[39] The commodities price boom of the early 1970s, coupled with an increasing synchronization in the business cycle internationally, generated significant levels of inflation that in turn created problems for the Canadian government in the management of stabilization policy.

These economic conditions and the failures of public policies precipitated a major shift in public policy in 1975, from traditional Keynes-

ianism to more conservative alternatives. Three events signalled a change from Keynesian economic strategies: (a) the imposition of wage and price controls (b) the adoption of monetary gradualism by the Bank of Canada; and (c) the imposition of government expenditure restraint through a policy of keeping expenditure growth within the "trend line" of growth in GNP.[40] The postwar commitment to the use of fiscal stabilization to sustain employment during economic recessions was considerably eroded by these events, and the delicate political balance that had been forged in the postwar period shifted. The cleavage between business and labour widened with the weakening of the postwar commitments to low unemployment, expanding social programs, rising wages, and Keynesian counter-cyclical stabilization.

It is apparent, however, that the strategy had a significant impact upon unemployment. By 1978 unemployment had reached a postwar record of 8.3 percent. There were 908,000 people unemployed in 1978 in an annual average. A study by Barber and McCallum of the impact of federal policies in the period 1975 to 1979 concluded that "the ascendancy of monetarism in the Bank of Canada had been bad news for the unemployed."[41]

Implications for Labour Market Policy

This new policy framework had decisive implications for labour market policy. Both the context for and orientation of labour market policy were spelled out in a discussion paper on the labour market at the First Ministers' Conference in November 1978. In June 1978, the prime minister had returned from the Bonn summit, where consensus had formed on the new conservative ideology of the influential McCracken report for the OECD.[42] Through the McCracken report, the OECD expressed a concern for the growth of government expenditures and continued commitments to expansionary fiscal policy. In August a sudden new round of federal expenditure cuts of $2 billion was announced. Consistent with the orientation of a more conservative economic paradigm, the discussion paper outlined the framework for future labour market policy initiatives.

> The Federal government's economic program announced by the Prime Minister on August 1 is based on the fundamental principle that an efficient and competitive private sector should play the main role in assuring Canada's economic growth. . . . It follows from the above principle that the government's demands on total resources should be generally reduced so that the dynamism of business may be enhanced and the purchasing power of consumers increased.[43]

In a reversal of philosophy, federal policy was itself criticized for its perceived negative impact on the efficiency of business and the market. Labour market policy was under attack.

> In terms of the labour market this principle means that governments should intervene specifically to act as catalysts in promoting self reliance. On the demand side, emphasis should be shifted to private sector employment development, helping industry employ Canadians, particularly young job seekers. On the supply side continuing attempts should be made to increase incentives to work and remove barriers to employment which could arise through a lack of appropriate skills.[44]

The strategy in general terms involved measures to change the federal orientation to influence demand as well as adjust policies to affect supply. On the demand side, resources were to shift from spending on direct job creation through a community project orientation to job creation in the private sector with a principal new policy tool, the employment tax credit.

On the supply side, the most notable policy changes were a reduction in the benefit levels and an increase in the eligibility conditions for unemployment insurance. In commenting on the purpose of these changes, the discussion paper argued:

> These amendments are seen as a step in a reorientation of federal intervention in the labour market, in a strategy designed in the long run to reduce dependence and enhance the capacity of Canadians to help themselves.[45]

Evaluations of the federal skill training program had consistently revealed that federal training dollars were being used primarily in upgrading the basic skills of those with minimal or no job skills, and that funds continued to be disproportionately allocated to areas of high unemployment. While this situation had in the past been tolerated for reasons of equity, the prevailing economic climate could, from the federal point of view, no longer afford the use of scarce training dollars for purposes that did not contribute directly to economic growth.

During the late 1970s several industries had claimed an inability to find trained workers, resulting in an impairment of their growth potential. A new program was subsequently announced that would provide training for specific trades in critical short supply: the Critical Trades Skill Training Program (CTST). Federal skill-training resources were to be directed increasingly toward meeting the needs of employers for skilled workers. The implication of this change was that fewer resources would be devoted to basic skill preparation and the equity goals of training.

Labour Market Development in the 1980s

By the early 1980s the active labour market policy framework that had been put in place in the 1960s and early 1970s was increasingly called into question. The policy changes of the 1970s, especially in 1978, had been piecemeal. It was time for a new set of ideas and policies to be fashioned into a blueprint for the 1980s. Three task forces were appointed in 1980 by

the federal government to report on labour market policy approaches for the coming decade.

The Task Force on Employment Opportunities for the 1980s was a parliamentary task force with a specific mandate to inquire into the prospects for meeting critical skill needs for the 1980s. It was chaired by Liberal MP Warren Allmand. The Task Force on Unemployment Insurance in the 1980s was situated within the Department of Employment and Immigration and headed by Sydney Gershberg, a senior department official. Its purpose was restricted to an inquiry into the problems of unemployment insurance. The third and most important of the task forces, also based within Employment and Immigration, was the Task Force on Labour Market Development in the 1980s. It was headed by David Dodge, who subsequently became a senior official in the Department of Employment and Immigration.

The mandate of the Task Force on Labour Market Development was sweeping. The Dodge task force was assigned to: (a) inquire into labour demand and potential skill shortages for the 1980s; re-examine the concepts of employment, unemployment and labour force participation; review immigration requirements; (b) assess the effectiveness of employment and placement services; (c) examine how particular groups could better participate in the labour market; and (d) assess the effectiveness of job creation programs.[46]

Although the Dodge report did not make specific recommendations in all of these areas, it established a set of principles upon which policy should be developed. Its most important contribution on the level of principle was the expression of a new interpretation of the problem of unemployment.

> Economists have generally agreed that developments in the labour market have tended to increase the unemployment rate independently of cyclical factors. These developments relate to the demographic changes which have occurred in the labour force, to the increasing prevalence of multi-earner families and to certain policy changes instituted by governments, most importantly the increased eligibility for and size of unemployment insurance benefits. As a consequence, not only has the non-cyclical unemployment rate risen, but the hardship associated with unemployment has been substantially reduced.[47]

In arguing that there was less need for public policy to reduce the measured rate of unemployment, the Dodge report offered a new perspective on labour market policy; one that emphasized labour supply factors, rather than deficiencies in economic demand, to explain high unemployment. In so doing it reinforced the view that had guided federal policy since the mid-1970s: that the traditional levers of demand management were no longer effective in lowering unemployment.

The first comprehensive articulation of this view in Canada had been in a report by the Economic Council of Canada in 1976. The report,

People and Jobs, questioned the need to reduce unemployment below its then prevailing levels of five to seven percent because the problem was not considered to be as serious as it had been in the past. The council argued that several supply factors combined — demographic changes, age/sex compositional shifts, and the 1971 changes to the Unemployment Insurance Act — had raised the measured rate of unemployment in Canada. In echoing this supply-side orientation, the Dodge report confirmed the belief that federal policy makers had abandoned the notion of low unemployment as an essential policy objective.

The most popular supply explanations of unemployment linked rising unemployment to changes in the size of the labour force, especially the increased rate of labour force participation by women and by the growing population and labour force participation of young people. Identification of increases in labour supply as the cause of unemployment had popular appeal as well as a logical symmetry. There is no reason in theory, however, why an increase in the supply of labour should, outside of the short term, result in unemployment. Indeed, it was vigorous labour force growth that allowed Canada to have such a strong rate of employment growth up to 1981. More sophisticated arguments have focussed not so much on the size of the labour force but on its age/sex composition and the impacts of unemployment insurance.

The age/sex composition arguments point out that young people (age 15–25) and women make up a growing segment of the labour force and a disproportionately large number of the unemployed. Given that women and young people historically have had higher rates of unemployment, the level of measured unemployment will automatically rise, independent of the demand for labour. Reference is made to the fact that young people are frequently new entrants to the labour market, without adequate work-related skills or job experience, and that women are frequently part-time workers or re-entrants to the labour force and second earners in families. The latter case has led to arguments that this kind of unemployment involves fewer hardships than situations in which the unemployed person is the only breadwinner.

As a political issue, these ideas have come under considerable criticism. It is argued that such attitudes reinforce the disadvantaged role of women in the labour market. Social agencies have maintained that any effort to justify high rates of youth unemployment flies in the face of the evident social problems of youth alienation, crime, suicide and poor health, which are linked to an ailing economy. So it is with some risk that politicians openly support these notions.

Empirically, the evidence is not convincing. While the youth labour force expanded rapidly in the early 1970s, its growth has tapered off and actually declined in the early 1980s.[48] Thus we would expect a decline in youth unemployment, but what we have is just the reverse. Further, both youth and female behaviour in the labour market cannot be attributed

solely to personal preference. The structure of the labour market is such that women and young people are concentrated in part-time and low-wage jobs: precisely those occupations that are unstable and subject to layoff or turnover.

The most important argument for higher rates of unemployment has been labour market policy itself, in the form of an overly generous unemployment insurance program. Given the concern for the effects of the 1971 changes on the work effort of individuals, it is not surprising that considerable attention has been paid to developing empirical estimates of the relationship between changes in unemployment insurance and the rate of unemployment. In general, most studies have found a positive but small statistical relationship between the 1971 increases in benefit levels and eligibility conditions on one hand, and increases in the rate of unemployment on the other.

These studies have been criticized for their basic modelling assumptions, and there is a good deal of inconsistency in their result.[49] While their implications have been ambiguous, however, the studies have affected policy. Their influence is most notable in a series of amendments to the Unemployment Insurance Act since 1975, including the major changes of 1978, which have amounted to a significant reduction in benefits and eligibility. Politically it is significant that the ideas embodied in these studies, their validity seriously in question and their policy implications unclear, found a welcome home among policy makers concerned with the size of government expenditures.

Labour supply interpretations of high unemployment have their intellectual roots in the work of monetarist and conservative economist Milton Friedman. In 1968 Friedman introduced the "natural rate of unemployment hypothesis" (NRH).[50] He argued that a capitalist economy naturally tends toward full employment if governments do not use monetary or fiscal policy to intervene. Natural rate theory explained why governments were having difficulty reducing unemployment. Keynes's critique of automatic full employment gave way to the 1930s notion, articulated anew in the 1970s and 1980s, that full employment would exist if governments allowed the market to make it exist. All governments were doing in manipulating monetary and fiscal levers was affecting prices. As Cornwall sees the development of these ideas:

> What determined the natural rate of unemployment was not spelled out any exact way. Other economists, anxious to refine the concept and provide a number, have introduced demographic characteristics of the labour force unemployment benefits and . . . the nature of the job structure. But one factor that could not permanently affect the natural rate was aggregate demand.[51]

This initial intellectual formulation was refined by another monetarist economist, Martin Feldstein, in an influential article published in *The*

Public Interest in 1973.[52] Feldstein argued that aggregate demand could no longer lower the unemployment rate appreciably. This view was no different from the argument about structural unemployment in the 1960s. But Feldstein singled out the labour market behaviour of women and young people as the cause of the "new unemployment." His labour market policy prescription focussed on reducing the minimum wage and unemployment insurance (the social minimum) because these were seen as the impediments to lowering unemployment.

The political turnaway from postwar Keynesianism in 1975 required a justification for departing from a commitment to low unemployment. That justification was found in the supply interpretation of unemployment. The numerical target goal of full employment, which had been pegged by the Economic Council of Canada in the 1960s at three percent unemployment, was considered by the council in the 1970s to be five percent unemployment. By the late 1970s, when unemployment averaged 7.5 percent, the council had discarded the notion of a full employment target altogether. It was argued that an "equilibrium rate of unemployment," or Friedman's "natural rate," was six percent. This adjustment prompted more than a few observers to suggest that the natural rate of unemployment appears to be nothing more than the prevailing rate of unemployment.

This new framework for understanding the problem of unemployment can be seen to have definite political advantages. It reinforces the conservative perception that unemployment is the product of individual failure, rather than of ineffective economic policy or the maldistribution of labour market opportunities. It also helps justify federal policies that have focussed on inflation by reducing expenditures and constraining wages. It is an important statement to the business community, as well, of the willingness of the Canadian government to improve the climate for capital investment.

There is by no means consensus among Canadian economists on these ideas. For example, a study by Barber and McCallum found that of the various factors influencing unemployment between 1975 and 1978, supply factors including demographic changes, age/sex composition changes, and unemployment insurance had no effect on the rate of unemployment.[53] Their empirical investigation attributes rising unemployment in the latter half of the 1970s to one simple fact: the lack of sufficient job growth. Demand-deficient unemployment is associated with three factors: (a) a decline in the terms of trade; (b) fiscal policy restraint; and (c) exchange rate appreciation as a result of restrictive monetary policy.

A more recent study by Pierre Fortin assesses the impact of various supply and demand factors on the aggregate rate of unemployment in Canada for the periods 1966–77 and 1977–83.[54] Fortin's analysis shows that macroeconomic change accounted for most of the 4.7 percent

increase in the rate of unemployment between 1966 and 1977, but supply or structural factors combined, including changing labour force shares, the increased youth labour force share, unemployment insurance and the minimum wage, accounted for a rise of 1.9 percent in the measured increase of unemployment (Table 5-2). In the period 1977–83, supply factors accounted for a 1.2 percent drop in the rate of unemployment, while macroeconomic factors contributed to a 5 percent increase.

TABLE 5-2 Sources of Change in the Aggregate Unemployment Rate for Canada, 1966–83

	1966–77		1977–83	
Initial Unemployment Rate	3.4		8.1	
Sources of Change	1.9		−1.2	
Structural Change				
Labour Force Shares		0.3		−0.1
Trend in Youth Share		0.8		−1.6
Unemployment Insurance		0.6		0.0
Minimum Wages		0.1		−0.6
Other		0.0		1.1
Macroeconomic Change	2.8		5.0	
Total Change	4.7		3.8	
Final Unemployment Rate	8.1		11.9	

Source: Pierre Fortin, "Unemployment in Canada: A Macroeconomic Disease in Need of a Macroeconomic Cure," paper presented to the Conference on "Unemployment, Can It Be Reduced? An International Perspective," University of Toronto, Centre for Industrial Relations, November 28–30, 1984.

The Dodge report's perspective on unemployment stands in sharp contrast to the view on the same issue taken by the Allmand parliamentary task force. In commenting on the full employment objective, the Allmand report made a strikingly strong criticism of the Dodge report.

> Moving even further away from the concept of full employment is the philosophy outlined in the latest government report on labour markets, *Labour Market Development in the 1980s*, which spends a whole introductory chapter asserting that a specific "full employment" goal has never been clearly accepted by the Federal Government, and rationalizing high unemployment as a necessary part of price stability. . . . Such rationalizations will not do. In the absence of a government commitment to providing full employment — that is, a job for every person willing and able to work — it is impossible to plan and carry out job creation and training programs which will be of any benefit.[55]

Arbitrarily, the Allmand report chose four-percent unemployment as its full employment goal.[56] The importance of this position lies not in its specific choice of a full employment target, or indeed in its generaliza-

tion about how an industrial strategy should be the primary mechanism for the achievement of full employment, but in its demonstration of the lack of political consensus on the need for reducing unemployment. The Dodge task force may, as the Allmand report suggests, have reflected the view of new mainstream economic thinking on the labour market, but apparently it did not represent the views of the Canadian public. The Allmand report, on the other hand, did attempt to represent the consensus of the 92 briefs and opinions of the 342 individual organizations that appeared before it in the 33 public hearings held across Canada between September 1980 and May 1981.[57]

The two reports of the Canada Employment and Immigration Commission (CEIC) were considerably more influential on subsequent public policy initiatives than the parliamentary task force. The emphasis of the Dodge report was on the need for critical trade skill training, notably in technical and business-related occupations; it recommended shifting federal spending from general post-secondary education to more strategically targeted purchased training from the provinces and private institutions. This training focus was not only a reflection of the lower priority attached to increasing the demand for labour, but also a move away from the human capital framework that had characterized training and education policy in the 1960s and 1970s. The need for more effective targeting of training expenditures may have been influenced, as well, by the notion that restraint was required in federal financial contributions to provincial post-secondary educational institutions, and by restraint policy in general.

Other general policy recommendations of the Dodge report to meet the labour market needs of the 1980s focussed on: facilitating the advancement of women, native people and the disabled in non-traditional jobs; the redirection of job creation efforts from costly and generalized direct job creation to community-based economic development and cash grants to employers; the improvement of labour market intelligence and placement; and facilitating the adjustment of workers from declining industries to growth industries by providing them with adjustment assistance.[58]

Ultimately the Dodge report had its most profound impact upon the training system. Training funded under AOTA had come under strong criticism for failing to provide needed skilled workers and for being unresponsive to changing labour market conditions. Federal-provincial training agreements under AOTA were to expire in March 1982, and the Dodge proposals effectively paved the way for a new National Training Act, which was announced by the federal minister of employment and immigration in January 1982.

The Politics of Training

The National Training Act, which was passed in August 1982, was specifically designed to shift the emphasis of federal training funding

from low-skill training to high-skill training. The new act has established a Skills Growth Fund to assist provinces and non-profit training organizations in developing training facilities and programs in occupations with skill shortages. National occupations have been designated for priority funding through a new integrated intelligence and forecasting system.

In designating national occupations in high-skill areas, the federal government is attempting to secure a greater measure of control over the training provided by provincial educational institutions through federal funding. Implicit in the passage of the act is the assumption that federal planners can predict future occupational requirements better than the provinces. The federal act was not even a year old when the provinces began to criticize the logic of the national priorities. There has been concern that many of the federally designated occupations are too closely related to dead-end jobs, and that the programs do not include enough basic education, such as how to read and write or to speak English or French.[59]

Compared to the passage of AOTA, the implementation of the National Training Act was a model of federal-provincial prior consultation and agreement. Indeed, there was considerable enthusiasm on behalf of the provincial colleges for the new money that would be available.[60] Federal spending on training has not been restricted, as it has been in other areas. Expenditures on training by the federal government in constant dollars remained stable between 1975–76 and 1982–83 and were budgeted to increase significantly in 1983–84 to $1.2 billion[61] (Table 5-3).

At least part of the problem of training in Canada lies in the structure of training arrangements. It has often been suggested that more on-the-

TABLE 5-3 Federal Expenditure on Training Programs, 1971–84

	$ millions	Constant 1971 $'s
1971–72	328.4	328.4
1972–73	343.5	323.1
1973–74	363.2	312.8
1974–75	401.2	311.7
1975–76	506.2	360.8
1976–77	545.0	360.2
1977–78	569.7	347.2
1978–79	635.1	355.2
1979–80	672.1	342.6
1980–81	770.0	342.6
1981–82	803.1	329.4
1982–83	925.9	350.6
1983–84	1,192.4	428.0

Source: Douglas A. Smith, "The Development of Employment and Training Programs," in *How Ottawa Spends 1984* (Toronto: Methuen, 1984), pp. 184–85.

job or industrial training is necessary, but considerable disagreement exists on precisely how such training can be provided. Labour organizations are most vociferous in advocating a grant-levy system whereby employers would be forced to be more responsible for training in a financial as well as a functional way. A grant-levy system of training implies financing through a special levy on all employers, usually with a differential levy depending upon the specific needs of employers for different kinds of training and skilled labour. The system also involves grants to employers out of this special fund to finance on-the-job training. The purpose of a grant-levy scheme is to make all employers responsible for the cost of training while providing financial incentives to those that actually do train.

A modified grant-levy scheme, whereby credits were substituted for grants, was advocated by the Allmand report as well. Opposition to the grant-levy proposals comes mostly from business, but not uniformly. In submissions to the parliamentary task force, it appears that the Canadian Manufacturers' Association was willing to entertain the idea while smaller business interests in general, such as the Canadian Federation of Independent Business, were firmly opposed.[62] The grant-levy scheme was rejected by the Dodge task force on technical grounds as a result of an unfavourable evaluation of the British grant-levy system.

It is clear that the debate over the grant-levy or levy-credit scheme has an important ideological/political dimension. Those who support the concept do so as much out of their belief in the necessity of forcing employers to take responsibility for training as in the efficiency and effectiveness of the policy. On-the-job training can be increased by financing mechanisms other than a levy scheme; and indeed, in terms of equity, other financing arrangements such as income tax may be more acceptable. Efforts to improve on-the-job training opportunities have broken down not so much because of the problem of how to finance such programs, but because of an apparent unwillingness to impose training requirements on employers. Since the start of the recession in 1981–82, there has been a large surplus in the federal account in respect of these efforts to provide more on-the-job training through the former Industrial Training Program and the new Critical Trades Skill Training Program.[63] Employers are either unable or unwilling to take up these federal training resources because of the lack of economic demand.

The lack of success in implementing these programs appears symptomatic of deeper problems with training in Canada. In addition to the existing problem of the scarcity of jobs, there remains considerable ambiguity as to the purpose of job training in an economy where the market determines future employment priorities. The response to this ambiguity has frequently been to improve forecasting techniques. As we entered the computer age, federal bureaucrats were more convinced

than ever that adequate projections could be made with the use of sophisticated new technology and intelligence systems. It is not clear, however, that they can. The Dodge report, which was released in the month before the start of the longest and deepest recession in Canada since the Great Depression, included the most up-to-date labour market forecasts. Ironically, the report predicted significant labour shortages by the mid-1980s as a result of continued strong economic growth.[64]

The federal economic strategy of the early 1980s emphasized the development of resource-based megaprojects as the basis for growth in the decade. Within this context it was believed that significant adjustments would be required, including that of facilitating mobility from east to west to encourage women and native people, particularly in the West, to be trained and available for projected economic opportunities. Training barriers to women, native people and the disabled were seen as real impediments to the expected boom of the 1980s.

The recent changes have further implications for the selection of trainees and the contribution training makes to achieving equity in Canadian society. The Allmand report stressed the fact that 28.4 percent of Canadians are functionally illiterate and that many of them are unemployed.[65] The Allmand and Dodge reports, while agreeing on the need for improved training through a greater emphasis on on-the-job and high-skill training, diverged on two important issues that relate to the equity orientation of training programs. The Dodge report expressed an efficiency perspective in arguing for a reduction of funding for Basic Skill Training Development, the funding component that offered support to provinces in the provision of basic job readiness skills to people with little or no opportunity for work.[66] In contrast, the Allmand report placed emphasis on the need for an extension of federal efforts in the area of literacy training, as well as improvements to the support provided to trainees in the form of higher living allowances and child care arrangements. The Allmand focus implied greater federal spending, while the Dodge focus was framed within the context of a commitment to federal expenditure restraint.

The growth, equity and stabilization objectives of training have always been in dynamic tension. While they may have coexisted uneasily during the economic boom periods, they became even more incompatible after the downward adjustment of the 1970s. It is important to point out that although the choice of efficiency over equity is being proposed as essential to our satisfactory economic adjustment for the 1980s, it is not clear, given the continuous interplay between these concerns, that the choice is working any better now than it ever has. Efficiency concerns have not triumphed over all equity concerns, but they are certainly in ascendency in the current economic environment. As the labour market policy proponents of the 1960s stressed, supply-side labour market

policies can help in the achievement of full employment, but they can't substitute for a commitment to sufficient macroeconomic demand.

The turn from postwar Keynesianism brought with it a significant abandonment of the 1960s concept of labour market policy that linked training and demand management to help achieve low unemployment. Training policy remained as active as ever, albeit in different directions, but there was a need to adapt labour market policies to the new reality of high unemployment, the necessity for fiscal restraint and cutbacks, a more efficient use of training dollars, and an improved business climate.

The Politics of Unemployment Insurance

The Gershberg task force report, *Unemployment Insurance in the 1980s*, was released at the same time as the Dodge report in 1981. It echoed the general philosophy of the "new unemployment" expressed in the Dodge report, and made a number of specific recommendations to change the eligibility conditions, financing arrangements, and other program elements of the unemployment insurance program. These proposals were to further erode unemployment insurance protection. Two key objectives of the proposed changes were: (a) to reduce direct federal contributions to the program, through a new financing formula, to not more than 15 percent of total program costs; and (b) to remove perceived disincentives to work inherent in the provision of unemployment benefits. One of the most important perceived disincentives was related to labour mobility.

After a decade of migration from the Atlantic Provinces in the 1960s, there was a reversal of that trend in the 1970s.[67] This reversal was attributed in some measure to the generosity of unemployment insurance benefits, which were believed to create an unwillingness to move in spite of high rates of unemployment in the East. More importantly, the Gershberg report, like its companion document, assumed a continuation of the boom in Western Canada, linked to the federal megaproject strategy. Greater interprovincial mobility would thus be required in order to ensure a sufficient number of workers in expanding labour markets. Insofar as unemployment insurance restricted mobility, the Gershberg report argued, it should be reduced.

The 1981 proposals were fully intended for implementation, but economic events have overtaken them. High levels of unemployment since 1981 have made it politically impracticable to implement a policy that would so directly affect the unemployed by reducing their access to benefits. Moreover, the unemployment insurance program continues to play a key stabilizing function in the Canadian economy by injecting money (in excess of $11 billion in 1982) into the hands of people who need it the most when recession occurs.

The 1981 proposals, however, were not new in either spirit or content. Ever since the 1971 changes were implemented, considerable pressure has been mounted against the "generosity" of unemployment insurance and its "ease of attainability." Amendments to the act have been made on several occasions, most notably in 1978, substantially reducing actual benefit levels and restricting eligibility. Changes in 1977 and 1978 reduced benefit levels from 66 percent of insurable earnings to 60 percent, increased the penalty period for voluntary quitters and the number of weeks to acquire eligibility, and limited accessibility to part-time workers and re-entrants to the labour market. These changes were intended explicitly to diminish the perceived work disincentives of unemployment insurance, especially among people who were believed to have only a marginal attachment to the work force. Coupled with other amendments at several points earlier in the 1970s, these changes have significantly eroded the unemployment insurance program from its original scope immediately after the 1971 expansion.[68] One measure of coverage, whereby the amount of regular benefits paid out is calculated as a percentage of the total person-weeks of unemployment, indicates that the amount of unemployment covered by unemployment insurance in 1981 was reduced to below its level before the 1971 changes (Table 5-4).

Perhaps the most important rationale for an erosion of unemployment insurance, from the federal government's point of view, was the growing direct cost to the federal treasury. Because of rising unemployment and the federal government's commitment to bear the cost of certain benefits

TABLE 5-4 Weeks of Unemployment Covered by Unemployment Insurance Canada, 1970–81

Year	Person Weeks of Unemployment	Regular Benefit Weeks Paid	Regular Benefit Weeks Paid as a Percentage of Total Weeks of Unemployment
1970	25,740	19,817	77.0
1971	28,704	22,634	77.8
1972	29,224	N/A	N/A
1973	27,040	N/A	N/A
1974	27,092	25,803	95.2
1975	36,244	34,319	94.7
1976	38,272	32,329	84.5
1977	44,200	34,370	77.8
1978	47,372	36,575	77.2
1979	43,576	31,882	73.2
1980	45,084	31,262	69.3
1981	46,696	31,870	68.2

Source: Statistics Canada, *Statistical Report on the Operation of the Unemployment Insurance Act*, cat. no.73–001; Statistics Canada, *The Labour Force*, cat.no.71–001.

N/A not applicable

at levels of unemployment over 4 percent, the government was paying a full $2.3 billion, or 50 percent of total program costs, by 1978. Changes to the tripartite financing arrangements reduced the federal direct commitment to less than $1 billion by 1981, despite a continued increase in total benefits paid between 1978 and 1981, from just under to just over $5 billion.

Since 1977 the unemployment insurance program has had several functions added to its original purpose of providing benefits to the unemployed. These are in support of the desire to enhance the program's effects on labour market efficiency, work incentives and job search activity. Often referred to as the "developmental uses" of unemployment insurance, the additional functions include work-sharing, the funding of some training, and job creation. However, the use of the unemployment insurance fund for such purposes has come under considerable criticism from business, labour and federal officials, as well as the Unemployment Insurance Commission itself. The gradual broadening of the program's role to include these developmental uses within the context of unemployment insurance may be attributed to the fiscal constraints placed on the Department of Employment and Immigration in a very slack labour market.[69] The fund generated by employer-employee contributions appeared available and was independent of the control of central government agencies.

From the point of view of federal-provincial relations, the various changes to the unemployment insurance program since 1971 illustrate the power of the federal government and the inevitable interplay between federal labour market policy and provincial social policy interests. Although the major battles over the 1971 expansion were centred on questions of universal coverage and provincial unwillingness to include some public sector workers, such as teachers and hospital workers, it was clear that other, larger issues were at stake. The provinces, and particularly Quebec, objected in principle to federal incursions into their policy-making jurisdictions and, more importantly, were concerned with how provincial fiscal responsibilities would be affected.[70] The 1960s had seen a phenomenal expansion of federal responsibility in the social policy field, and the provinces were attempting to reassert their power despite the financial advantages that would accrue to them as a result of reduced welfare caseloads. Given the social and political necessity of some income security reform, the choice of unemployment insurance as the target reflected the reality of sole federal responsibility in that area since the constitutional amendment of 1940.

Subsequent proposals to erode the program were not modified substantially by provincial intervention, although they would have a significant impact on provincial welfare budgets, especially in the Atlantic Provinces. There is evidence that, more so than the governments of the Atlantic Provinces, it was federal Minister of Fisheries Romeo Leblanc,

who influenced his cabinet colleagues in changing a provision that would have dropped fishing as an occupation covered by the Unemployment Insurance Act, and in securing variable entrance requirements more favourable to the East.[71] However, the experience of the 1970s has apparently led to greater willingness on the part of the federal government to consult with the provinces on unemployment insurance as well as on other labour market policy changes.[72]

Assessments of the influence of private interests on the changes to the unemployment insurance program, in both its expansionary phase and its period of contraction, indicate little direct impact.[73] Rather, one can observe indirect impact through persistent pressure. Business interests generally favour the reduction of unemployment insurance, while labour favours expansion of the program, with very little variation among their representative organizations. While direct impact may be insignificant, there has been a decided shift away from the social security orientation of the 1971 scheme, favoured by labour, toward the market efficiency orientation favoured by business.

The erosion of the unemployment insurance program has to be seen primarily within the context of the new conservatism since the mid-1970s. There has been sustained pressure by business interests to reduce unemployment insurance and this has been reinforced by some academic critiques of the program. It must be viewed, as well, within the context of a deep fiscal concern, especially on the part of the federal government. The movement is linked to the general erosion of social expenditures as a result of the fiscal crisis that arose in the mid-1970s in all western nations. In ideological terms the erosion of unemployment insurance reflects an explicit intention to increase the coercive force of the market on individuals. It is rooted in the conservative belief that income security expenditures and the size of government have created market inefficiencies that have restricted our economic potential and individual freedom. When a comparison of social spending and economic efficiency is considered on an international basis, there is little evidence, in fact, that this is the case. With the exception of Japan, those nations with the highest spending on social welfare have performed the best in terms of productivity and growth.[74] While some dispute the direct causal links implied by this fact, at the very least it is unlikely that the current trend toward a reduction of income security programs will lead to longer-term economic growth and employment.

In social and political terms, the erosion of unemployment insurance and specifically the 1978 changes reflect a definite shift in attitude toward the provision of social security and the problem of unemployment. The new social minimum introduced in 1971, when the unemployment rate was 6.4 percent, was no longer acceptable when the unemployment rate rose to 8.3 percent in 1978. The new emphasis on conservatism in economic ideology had its counterpart in a new social ideology: individ-

uals had to fend more for themselves in an increasingly competitive job market. Changes in the financing formula that have reduced federal direct contributions over a specified percentage of unemployment reflect an abandonment of the idea so strongly supported by Bryce Mackasey in 1971: that it is the responsibility of the Department of Finance, through well-established fiscal practices, to bring the unemployment rate down to a level whereby the unemployment insurance fund can be self-financing.

The Politics of Job Creation

Job creation has evolved in ways that similarly reflect the larger political and economic changes of the 1970s and 1980s. These changes demonstrate the problems both in the conception and implementation of direct job creation within the federal-provincial framework, and in the commitment of government to the problem of unemployment.

The Local Initiatives Program (LIP) and Opportunities for Youth (OFY) were originally conceived to assist young people and other workers seeking to gain a foothold in the labour market. As unemployment has risen and become a fact of Canadian life, demands have been made upon programs such as these to act as counter-cyclical devices, providing necessary jobs to workers and communities that have experienced layoffs, plant closures and high unemployment. Expenditures have fluctuated widely, program names have changed several times in the past decade, and new programs have been introduced and dropped just as easily. This lack of continuity may be explained in part by the fact that the programs are intended to be responsive to the unemployment situation overall.

There are other reasons, however, for the failure of job creation programs, and one is simply the confusion of objectives inherent in the programs themselves. Program expenditures may not always be effectively targeted on the intended beneficiaries.[75] Further reasons include the difficulties intrinsic to any short-term program; problems between federal and provincial, and federal and municipal, governments over the impact of federal funding on other jurisdictions; problems with program administration; and the fact that such programs are subject to considerable political manipulation. It would be easy to conclude that these are what constitute the central political questions of direct job creation in Canada. But as with social policy and other labour market policies, the main influences on job creation policy are linked to the shift to a more conservative social and political ideology.

A criticism that is frequently levelled against federal employment programs by various business interests is that direct job creation is not real job creation, and that real job creation can and should occur in the private sector.[76] This view assumes that what is real is what is produc-

tive, and that what is productive is what the market determines to be profitable. If this were true, one might conclude that workers who produce hamburgers are productive, while workers who produce public services such as child care or research are not. In fact, the public sector generally produces for collective consumption, while the private sector generally produces for private consumption. One is not inherently more productive than the other. It is, rather, a question of political choice, or preference for public sector initiatives or market-based initiatives.

Nevertheless, business's criticism of direct job creation has had an influence on federal job creation policy, as job creation resources were first shifted from community-based and community-determined jobs to employment tax credits and then to other tax and employment subsidies for the private sector. As Doern and Phidd have argued, this development is linked to a growing sense that Keynesianism, with its "stop-start" and "fine-tuning," is part of the problem and not the solution — a view expressed in the federal budget speeches of 1976 and 1977.[77] However, they point to another political reality that from time to time supersedes the larger policy changes occurring at the macro level.

> These programs are also a function of the government's need to respond "now" to unemployment in the face of the ritual of Parliamentary debate. Even when urging the need for less fine tuning for example, the Tory and even the NDP parties were still wanting action "now" and results "immediately."[78]

Despite the volatility of programs and expenditures in the period before 1981, the Canadian government's overall expenditure for purposes of employment creation declined in constant dollar terms from 1971–72 to the most recent period, 1982–83. Federal expenditures on job creation in 1982–83, when unemployment was in excess of 11 percent, were 32 percent below expenditures in the peak spending period, 1972–73, when employment was 5 and 6 percent[79] (Table 5-5). The substantial increase in employment creation spending for 1983–84 of $0.5 billion from the previous year is 42 percent over its historical record (in 1971 constant dollars). But this $854-million spending estimate, while a record in spending on job creation in Canada, does not reflect as great a relative effort at reducing unemployment, because unemployment in 1982–83 was 91 percent higher than in the early 1970s.

The purpose of direct job creation programs has never been very clear. On one hand, in the early 1970s the programs were intended to target specific groups and localities experiencing labour market difficulties — a distinctly structural approach. On the other, direct job creation has been called upon through considerable public appeal to play a role in dealing with cyclical unemployment in periods of economic decline. These conflicting objectives have never been effectively resolved. However, one thing is certain: the commitment of federal spending to counter

labour market difficulties in the 1980s has been substantially less in real terms than in the early 1970s, when unemployment was much lower.

The Canadian Approach in Context

Cross-National Differences in Unemployment and Labour Market Policies

Unemployment in Canada is currently higher than in most other OECD countries, and has been consistently so since the late 1950s. More recently, since the early 1970s, the unemployment rates in both Canada and the United States have been much higher than in Europe and Japan (Table 5-6). Recent cross-national political analysis has sought to isolate the political and economic variables that influence these differences. Research has identified differences in policy and in political configuration as the main determinants of differences in unemployment.

Charles Andrain has analyzed the unemployment experience of several western nations including Canada.[80] His research has attempted to determine which macroeconomic choices are associated with the labour market performance of these countries. Using statistical correlational techniques, Andrain shows that structural rigidities in labour markets better explain differences in rates of unemployment among groups within countries than variations in joblessness among nations. Based on this research, variations in the rate of unemployment among nations are related to differences in variables that express the demand for labour.

In the multi-country sample of Western Europe and North America, over the period analyzed (1965–75), Andrain found that fiscal policies exerted a stronger impact on unemployment than did monetary policies. Countries with higher government expenditures as a proportion of GNP had lower unemployment rates. Andrain singled out the United States and Canada, both of which have the lowest proportions of national income spent by government at all levels, and the highest rates of unemployment. Within the context of fiscal policy, he concluded that the expenditure approach was more effective in creating jobs than the tax reduction approach. Government expenditure can exert influence on employment indirectly through the maintenance of economic demand, or it can be used more directly in the form of labour market policies that create jobs, maintain jobs, or provide alternatives to employment. In that the unemployment rates are affected by government commitments to job creation expenditures, countries that are willing to use the expenditure approach may be more successful in reducing unemployment.[81]

To the extent that unemployment is related to rigidities in the labour market, European countries have taken more active steps to create flexible labour markets through the provision of more extensive training programs, more information on available jobs, and greater opportunities

for mobility. Further research on the differences in unemployment rates among major OECD nations has been undertaken by Roger Kaufman.[82] His work calls into question the notion that differences in the unemployment experience of countries are related to variations in labour supply caused by the age/sex composition of the labour force or the relative generosity of unemployment insurance. Kaufman's research indicates that differences in unemployment have more to do, rather, with labour market policy provisions for job security and job continuity. Using data for the period 1953 to 1975, he shows that separation rates or involuntary terminations (layoffs) in the manufacturing sector were substantially higher in Canada and the United States than in Europe or Japan.[83] Kaufman attributes these differences to the behaviour of firms and the fact that national job security legislation exists in most European jurisdictions, but not in Canada or the United States. Legislative inducements and disincentives to lay off in European countries have influenced employers to allocate production more evenly over the course of a year, so that layoffs will be avoided.

Kaufman argues that the labour market legislation in Canada and the United States provides few job security incentives to employers, while in Europe more extensive provisions prevail. These include mandatory severance pay, the requirement for outside approval before scheduling overtime, and the requirement to consult formally with the workers and a government body before any layoff occurs. The costs of layoffs for European employers are thus higher than for their North American counterparts. Labour is a higher fixed cost that cannot be avoided through layoffs if production declines. Kaufman's work suggests that political opposition to layoffs and unemployment from unions and the general public is much greater in European jurisdictions. As a consequence, European governments on the whole have favoured more extensive use of labour market policies, including legislation to promote job continuity and security.

Research on layoffs and job retention as a policy issue in Canada seems to verify this proposition. The federal Commission of Inquiry into Redundancies and Layoffs (the Carrothers Commission) found in 1979 that Canadian employers were not on the whole engaging in effective labour force planning.[84] Muszynski and Krawetz have argued that public inducements and private practices to prevent layoffs are poorly developed in Canada because of an implicit bias in favour of new job growth and turnover.[85] Layoffs and plant closures are seen as an important mechanism in the process of economic adjustment and the achievement of economic efficiency.[86] Efforts to impede this process are considered to have a negative impact upon growth and productivity. The approach is reinforced by a labour relations framework that provides an "exclusive right" to employers to lay off and is linked to the notion that corporate interests are the same as the public interest.[87] This view is

TABLE 5-5 Expenditures on Job Creation by Program, 1971–78 in $ millions

	1971–72	1972–73	1973–74	1974–75	1975–76	1976–77	1977–78
Local Initiatives Program (LIP)							
Expenditures	$ 182.2	$ 192.5	$ 69.8	$ 82.2	$130.5	$186.5	—
Jobs	92,300	85,876	30,643	30,359	40,516	45,240	—
Canada Works[a] (CW)							
Expenditures	—	—	—	—	—	—	$ 220.3
Jobs	—	—	—	—	—	—	75,150
Canada Community Development Projects (CCDP)							
Expenditures	—	—	—	—	—	—	—
Jobs	—	—	—	—	—	—	—
Canada Community Services Projects (CCSP)							
Expenditures	—	—	—	—	—	—	—
Jobs	—	—	—	—	—	—	—
New Technology Employment Program (NTEP)							
Expenditures	—	—	—	—	—	—	—
Jobs	—	—	—	—	—	—	—
Local Employment Assistance Program (LEAP)[b]							
Expenditures	—	—	$ 5.5	$ 11.8	$ 13.3	$ 13.6	$ 19.0
Jobs	—	—	1,534	1,856	1,639	1,504	2,219
Employment Tax Credit Program (ETCP)[c]							
Expenditures	—	—	—	—	—	—	—
Jobs	—	—	—	—	—	—	—
Local Employment Development Assistance Program(LEDA)							
Expenditures	—	—	—	—	—	—	—
Jobs	—	—	—	—	—	—	—

Youth Employment Programs[d]							
Expenditures	$ 23.1	$ 31.0	$ 35.9	$ 26.3	$ 32.3	—	$ 43.3
Jobs	27,382	29,954	37,392	27,525	29,312	—	30,517
New Employment and Expansion Development (NEED)							
Expenditures	—	—	—	—	—	—	—
Jobs	—	—	—	—	—	—	—
Total All Programs							
Expenditures	$ 205.9	$ 223.5	$111.2	$120.3	$176.1	$200.1	$ 282.6
Jobs	119,682	115,830	69,569	59,740	71,467	46,744	107,886
Constant Dollar Expenditures[e]	$ 205.9	$ 210.3	$ 95.8	$ 93.5	$125.5	$132.3	$ 172.2

	1978–79	**1979–80**	**1980–81**	**1981–82**	**1982–83**	**1983–84**	**1984–85**
Local Initiatives Program (LIP)							
Expenditures	—	—	—	—	—	—	—
Jobs	—	—	—	—	—	—	—
Canada Works[a] (CW)							
Expenditures	$ 239.0	$ 133.9	—	—	—	—	—
Jobs	49,035	23,501	—	—	—	—	—
Canada Community Development Projects (CCDP)							
Expenditures	—	—	$ 101.4	$139.8	$220.8	—	—
Jobs	—	—	24,688	32,825	33,785	—	—
Canada Community Services Projects (CCSP)							
Expenditures	—	—	$ 4.0	$ 10.5	$ 10.0	—	—
Jobs	—	—	1,409	1,472	1,622	—	—
New Technology Employment Program (NTEP)							
Expenditures	—	—	$ 2.2	$ 6.4	$ 3.5	—	—
Jobs	—	—	480	820	1,358	—	—

TABLE 5-5 (cont'd)

	1978–79	1979–80	1980–81	1981–82	1982–83	1983–84	1984–85
Local Employment Assistance Program (LEAP)[b]							
Expenditures	$ 24.1	$ 48.2	$ 58.7	$ 51.7	$ 57.0	—	—
Jobs	3,006	6,892	10,195	9,045	7,732	—	—
Employment Tax Credit Program (ETCP)[c]							
Expenditures	$ 40.0	$ 100.0	$ 100.0	—	—	—	—
Jobs	19,811	50,906	50,340	—	—	—	—
Local Employment Development Assistance Program(LEDA)							
Expenditures	—	—	$ 3.0	$ 2.0	$ 2.7	—	—
Jobs	—	—	670	450	600	—	—
Youth Employment Programs[d]							
Expenditures	$ 53.7	$ 100.3	$ 87.1	$ 67.5	$ 84.5	—	—
Jobs	34,048	49,410	44,725	34,435	40,977	—	—
New Employment and Expansion Development (NEED)							
Expenditures	—	—	—	—	—	—	—
Jobs	—	—	—	—	—	—	—
Total All Programs							
Expenditures	$ 356.8	$ 382.4	$ 356.4	$277.0	$378.5	$ 854.1	$ 634.9
Jobs	105,900	130,709	132,507	79,047	86,074	—	—
Constant Dollar Expenditures[e]	$ 199.6	$ 194.4	$ 163.1	$114.0	$143.3	$ 299.4	$ 211.9

Sources: Economic Council of Canada estimates, CEIC Annual Reports (various years) and Estimates (1983–84); quoted in Douglas A. Smith, "The Development of Employment and Training Programs," in *How Ottawa Spends 1984* (Toronto: Methuen, 1984), pp. 178–79.

a. Includes Economic Growth Component.
b. The jobs figure for 1983–84 is an estimate based on expenditure data and the 1982–83 relationship between expenditure and jobs.
c. The ETCP program involved tax credits rather than direct expenditures. The expenditure figures shown here are estimated tax revenues foregone. The figure for 1978–79 is estimated from the relationship between employment and tax revenues foregone in 1979–80 and 1980–81.
d. Includes youth programs which operated under a series of different program names.
e. Based on the Consumer Price Index with (1971–72 = 100). Inflation for 1983–84 and 1984–85 is assumed to be 5 percent.

likely overly optimistic and does not take into account the problems of international capital mobility or the peculiarities of conglomerate and multinational corporate behaviour.[88]

European practices are much more closely linked to the belief that workers have legal rights to a job akin to property rights.[89] Esping-Anderson has argued that European countries with social democratic governments, most notably Sweden, approach the problem of labour market adjustment in a fundamentally different way from Canada and the United States.[90] While there is general agreement on the need to improve competitiveness and productivity, and this involves industrial change, the impediments are viewed differently. There is a tendency in North America, reinforced by the continuous pressure of the business sector, to view high social minimums and active labour market policies as barriers to mobility and work. As a consequence there is a tendency to reduce these "barriers to efficiency," particularly in economically difficult periods, in an effort to become more competitive. The European attitude is in many ways the opposite. High social minimums are believed to create conditions favourable for change. If workers feel secure in the face of change through access to extensive labour market policies, they are much more likely to support industrial restructuring. Moreover, labour market policies continue to contribute to their Keynesian function of stabilization by targeting scarce resources more effectively on the unemployed.

Political Factors Influencing the Commitment to Labour Market Policy

The aforementioned studies beg the question of what factors explain the differences in policies and policy outcomes among nations. This kind of analysis is frequently controversial because it often evokes the same ideological responses it is intended to diffuse through a comparative scientific approach. Political science literature has looked at, for example, party control as a factor differentiating nations' choices to counter unemployment and inflation. Generally, research has reinforced the hypothesis that where social democratic parties have gained the power of government and where there are strong labour movements, there have been greater levels of commitment to public expenditure, income equality and lower unemployment.[91] However, this party-based hypothesis has been questioned. Korpi indicates that although the strength of a nation's labour movement and the extent to which working-class parties have participated in government have an apparent influence on the choice governments make between inflation and unemployment, since the onslaught of the world recession in 1974–75 this relationship has not been clear-cut.[92]

Schmidt, who has also done research on the correlates of unemployment using cross-national data and multivariate statistical analysis,

TABLE 5-6 Unemployment Rates by Sex, Approximating U.S. Concepts, for Selected Countries, 1970–82

	United States	Canada	Australia	Japan[a]	France[b]	Germany	Great Britain	Italy	Netherlands[c]	Sweden
Men:										
1970	4.4	5.6	1.1	1.1	1.5	0.5	3.4	2.2	[d]	1.4
1971	5.3	6.0	1.3	1.2	1.7	0.5	4.2	2.2	[d]	2.4
1972	5.0	5.8	2.0	1.4	1.7	0.7	4.7	2.6	[d]	2.5
1973	4.2	4.9	1.6	1.3	1.6	0.6	3.5	2.4	2.8	2.2
1974	4.9	4.8	1.9	1.3	1.8	1.5	3.1	2.0	[d]	1.7
1975	7.9	6.2	3.8	1.9	2.9	3.3	4.9	2.2	3.8	1.4
1976	7.1	6.3	3.9	2.1	3.0	3.1	6.3	2.4	[d]	1.3
1977	6.3	7.3	4.6	2.0	3.3	2.9	6.6	2.5	4.0	1.5
1978	5.3	7.6	5.4	2.2	3.7	2.7	6.2	2.6	[d]	2.1
1979	5.1	6.6	5.2	1.9	4.3	2.3	5.5	2.7	3.7	1.9
1980	6.9	6.9	5.1	1.7	4.3	2.3	7.3	2.6	[d]	1.7
1981	7.4	7.1	4.8	1.9	5.4	3.4	11.4	2.9	6.3	2.4
1982	9.9	11.1	6.3	1.9	[d]	5.2[e]	13.3	3.4	[d]	3.0

Women:

1970	5.9	5.8	2.8	2.5	4.1	0.6	2.5	4.5	d	1.7
1971	6.9	6.6	3.1	2.7	4.6	0.8	3.3	4.5	d	2.8
1972	6.6	7.0	3.9	2.9	4.7	0.8	3.4	5.2	d	3.0
1973	6.0	6.7	3.6	2.7	4.5	0.9	2.7	5.4	4.2	2.8
1974	6.7	6.4	4.1	2.9	4.8	1.8	3.0	4.5	d	2.4
1975	9.3	8.1	7.0	3.8	6.3	3.6	4.1	5.0	6.9	2.0
1976	8.6	8.4	6.4	3.8	7.2	4.0	5.4	5.8	d	2.0
1977	8.2	9.4	7.5	4.3	7.6	4.5	5.9	6.0	6.7	2.2
1978	7.2	9.6	7.9	4.3	8.0	4.4	6.3	6.1	d	2.4
1979	6.8	8.8	8.2	4.1	9.0	4.1	5.6	6.4	8.1	2.3
1980	7.4	8.4	7.9	3.3	9.8	3.8	6.6	6.6	d	2.3
1981	7.9	8.3	7.4	3.6	11.1	5.1	9.4	7.2	11.0	2.7
1982	9.4	10.8	8.5	4.0	d	6.9e	10.8	7.6	d	3.4

Source: Monthly Labor Review (January 1984), p. 48.

a. Adjusted rates estimated on the basis of special March survey data for 1977 through 1980. Adjustments for 1970–76 are based on March 1977 data, and adjustments for 1981–82 are based on March 1980 data.

b. Data refer to March.

c. Data refer to March–May.

d. Not available.

e. Preliminary estimate based on incomplete data.

questions Korpi's formulation that governments have a choice between inflation or unemployment, and his assertion that the relative choice will reflect the extent to which socialist influences are present in government.[93] Schmidt found no apparent relationship between inflation and unemployment in his 21-nation study for the period 1974 to 1978. His empirical analysis, which included Canada, found no systematic evidence to validate the labour supply and demographic explanations of unemployment. Nor indeed did he discover any relationship between economic variables such as economic growth rates and inflation and unemployment, or any correlation between larger welfare states (i.e., more spending on income security as a percentage of gross domestic product) and unemployment. These findings call into question the recent criticisms of unemployment insurance and other social policy/labour market policy spending. They suggest not that economic variables do not have an influence on unemployment rates, but that there are differences in the responsiveness of countries to economic circumstances. These differences, Schmidt argues, are determined by intervening political mechanisms.

Schmidt's analysis of the influence of political variables finds no support for the "party control does matter" hypothesis. On the other hand, he finds persuasive statistical support for the hypothesis that a strong extra-parliamentary balance of interest does affect levels of unemployment.

> A strong socialist milieu, whether measured in terms of average left-wing vote or the presence of a strong dominant party of the left within the political system, exerts a strong pressure on government to practice active labour market policies.[94]

He also finds a strong relationship between low unemployment and corporatist forms of political organization. Corporatism in Schmidt's analysis is the result of a successful political exchange where "trade unions tend to be more moderate in their wage policies if employers pursue moderate price policies and if the state is willing to offer compensation in other areas."[95] Corporatism and the strength of extra-parliamentary activity are linked in Schmidt's analysis because they both reflect the influence of stronger left-wing and working-class interests on public policy. According to Schmidt, corporatism helps raise the importance of unemployment as a political issue; it prevents the imposition of the cost of unemployment on labour alone when an economic crisis occurs; it favours capital accumulation, thus ensuring high employment; and it results in macroeconomic and labour market policies to lower unemployment.

This is not meant to suggest that the development of a corporatist form of political organization is Canada's solution to the problem of unemployment. Other theorists of corporatism argue that corporatist forms of interest mediation are sophisticated mechanisms for institutionalizing

the dominant interests of capital in this bargain.[96] Canada's labour movement has certainly taken this position, and it is unlikely, without greater levels of unionization and more centralized forms of bargaining, that labour could more effectively bargain for lower unemployment as well as more favourable labour market policies.

Our analysis suggests that the influences on labour market policy development are as much political as they are economic. In this regard, and within the limits of this analysis, one can argue along with both the Doern and Wolfe papers in this volume that the greater leverage enjoyed by an expanding labour movement in the 1960s, in the context of minority governments in which the NDP also had greater leverage, helps account for the greater commitment to equity-oriented labour market policies during this period. Similarly, the weakness of the Canadian labour movement and the lack of any effective institutional mechanisms for the political realization of labour's interests help explain the dominance of neo-conservative macroeconomic and labour market policies since the mid-1970s.

Conclusion

Unemployment has been the central political issue shaping labour market policy in Canada. In the immediate postwar period, unemployment was considered primarily a cyclical economic problem. The policy tools to solve it were macroeconomic, and the political limitations for its solution were the political limits of Keynesianism. Full employment as a goal was abandoned in favour of a commitment to high employment because a full employment commitment would have required more government intervention than the balance of political forces would allow.

In the 1960s unemployment was considered primarily a structural problem. This view influenced the development of active labour market policies where government intervened in the labour market to match labour supply more effectively to rapidly changing labour demand. The expansion of training policy in the 1960s and unemployment insurance in the early 1970s reflected the view that the social and economic objectives of labour market policy were compatible. Keynesian fiscal expansion provided the foundation for the expansion of training and unemployment insurance and the introduction of direct job creation.

By the 1970s the bloom was off the Keynesian rose. Economic events of the 1970s — most importantly high unemployment, inflation and the growing public debt — led to an erosion of commitment to the use of counter-cyclical stabilization policies to reduce unemployment substantially. The "full employment" unemployment rate was defined upward as unemployment came to be seen principally as a labour supply problem, related to the demography of labour supply and the work-disincentive

effects of unemployment insurance. This focus shifted attention away from the weakness of the Canadian economy in general and failures of public policy specifically to produce sufficient labour demand.

A policy of fiscal restraint adopted in the mid-1970s cut into the equity aspects of labour market policies in eroding benefits and protection provided to the unemployed through unemployment insurance, and in using scarcer training dollars for purposes that contributed more directly to private sector needs and interests. The ideas governing these changes were distinctly conservative in origin. They were rooted in the belief that it was the equity aspects of labour market policies (e.g., the generosity of unemployment insurance benefits) that were significant impediments to economic growth. This view of labour market policy was also linked to the belief that government should play a smaller role in economic affairs, and that supply and demand should be rescued as the principles that would guide economic and social development. The new conservative ideology was consolidated in the early 1980s as the federal government sought a blueprint for labour market policy for the rest of the decade. Despite significant economic decline in 1981–82 and unemployment in excess of 11 percent, this framework was not altered; and there are indications that the ideology will be carried even further by the new Conservative government at the federal level.

If ideas have shaped labour market policy in the past two decades, so have the interests that promote these ideas. Business and labour achieved some measure of consensus on the issue of training in the 1960s. This consensus was largely gone by the 1970s as economic difficulties highlighted the inherent conflict between the equity and efficiency objectives of policy. Business has been vociferous in attacking the "generosity" of unemployment insurance, the efficacy of direct job creation, and the lack of sufficient focus of training in the provision of skilled workers for skilled trades. The dominance of business's conservative approach to labour market policy in the actual policy changes in Canada reflects a shift in the balance of political forces, as well. The successive recessions since the mid-1970s have reduced the power of labour and strengthened the power of business. Within this context it can be concluded that since the early 1970s, the balance of political influence on labour market policy has shifted toward employers and away from labour.

Finally, intergovernmental differences in perspective on training, income security, and the effects of direct job creation also have affected the development of labour market policies. Provincial interest in maintaining their institutional educational infrastructures has limited the federal government's ability to determine training priorities as well as the scope for on-the-job training. Unemployment insurance as a major federal income security program has at times intruded into the welfare and social policy domain of provincial governments.

The expansion of the unemployment insurance program in 1971 was in part a response by the federal government to Quebec's challenge to reform the income security system in Canada. Direct job creation programs initiated in the early 1970s were a display of federal fiscal power and of the desire for a larger federal direct role in local labour markets other than through unemployment insurance. This initiative of expenditure politics, however, ran into substantial conflict with the provinces and municipal governments over the coordination of local initiatives and the implications for junior levels of government in maintaining continued funding for federally initiated projects in areas of provincial jurisdiction.

Comparative political analysis helps illuminate differences between Canada and other western industrial nations with respect to unemployment. Research suggests several key differences in policy and in politics. On the level of policy, countries with low unemployment have tended to emphasize labour market policies that prevent job loss and encourage job security, and have greater levels of commitment to the use of government spending to alleviate unemployment. The political factors that promote increased job security and more extensive labour market policies tend to be greater levels of unionization, more powerful centralized trade unions, and stronger parliamentary and extra-parliamentary socialist forces.

The implications of this analysis for future labour market policy directions are not immediately apparent. However, it does appear that the new conservative paradigm governing labour market policy developments such as the continued erosion of unemployment insurance, the erosion of job creation and the commitment to full employment, and the focus on efficiency to the detriment of equity in training, may not be the best way to achieve low levels of unemployment. On the other hand, it may be a good strategy if the objectives are to further weaken labour, to reduce labour market equity and to increase the coercive force of the market. If greater cooperation between business, labour and government is desired in the resolution of labour market problems, government and business at least must re-establish a commitment to the maintenance of high employment, if not full employment.

Notes

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